THE REFERENCE LIBRARY
OF THE BENNETT COLLEGE

"MODERN BUSINESS METHODS"

The Reference Library of
The Bennett College

MODERN BUSINESS METHODS

EDITED BY THE

PROFESSIONAL STAFF OF THE
BENNETT COLLEGE

FOR THE USE OF STUDENTS

CONTENTS

SECTION I.—ESTABLISHMENT OF A SOLE TRADING CONCERN

CHAPTER I

THE OPENING OF A BUSINESS

CHAPTER II

ASCERTAINMENT OF THE PROBABLE PROFIT

CHAPTER III

CHOICE OF THE LOCALITY AND SITE OF THE BUSINESS

CHAPTER IV

THE STAFF

CHAPTER V

EQUIPMENT AND PROPAGANDA

CHAPTER VI

OPENING A BANKING ACCOUNT

Contents

SECTION II.—MANAGEMENT OF THE BUSINESS

CHAPTER VII

ORGANISATION OF THE OFFICE

CHAPTER VIII

BUSINESS CORRESPONDENCE

CHAPTER IX

BUSINESS CORRESPONDENCE—(*continued*)

CHAPTER X

WHOLESALE AND RETAIL TRADE

CHAPTER XI

PROCURING THE GOODS

CHAPTER XII

PRODUCE EXCHANGES

Contents

CHAPTER XIII

DEMAND AND SUPPLY

CHAPTER XIV

AGENTS

CHAPTER XV

TRANSPORT INSTITUTIONS

CHAPTER XVI

THE FORWARDING AGENT

CHAPTER XVII

INSURANCE

CHAPTER XVIII

WAREHOUSING OF THE GOODS

CHAPTER XIX

SETTLEMENT OF THE ACCOUNTS

Contents

CHAPTER XX

SALE OF THE GOODS

SECTION III.—EXTENSION OF THE BUSINESS

CHAPTER XXI

METHODS OF EXTENDING THE BUSINESS

CHAPTER XXII

FORMATION AND MANAGEMENT OF A PARTNERSHIP BUSINESS

CHAPTER XXIII

FORMATION OF A LIMITED COMPANY

CHAPTER XXIV

FINANCING A PUBLIC LIMITED COMPANY

Contents

CHAPTER XXV

THE MANAGEMENT AND CONDUCT OF THE BUSINESS OF A PUBLIC LIMITED COMPANY

SECTION IV.—SPECIAL FORMS OF BUSINESS

CHAPTER XXVI

THE IMPORT TRADE

CHAPTER XXVII

THE EXPORT TRADE

CHAPTER XXVIII

THE TRADE OF THE MANUFACTURER

CHAPTER XXIX

BANKING AND EXCHANGE

CHAPTER XXX

THE STOCK EXCHANGE

Contents

Reference Library of the Bennett College: "Modern Business Methods"

SECTION I.—ESTABLISHMENT OF A SOLE TRADING CONCERN

Chapter I

THE OPENING OF A BUSINESS

1.—Capacity of a Sole Trader. Unless the law prescribes otherwise, any one may open a business. There are, however, certain legal restrictions, both in regard to commodities to be sold and the qualifications of the persons who propose to carry on a business. For trade in certain goods, such as poisons or alcoholic liquor, a licence must be obtained, and approval is also required for the sale of drugs. It is also important to bear in mind that contracts entered into by a person under twenty-one years of age (that is, an infant) are not usually binding upon him. If such contracts are for his benefit they are not absolutely void, but only voidable; that is, he can, if he so elects, ratify them when he comes of age, and he then becomes bound by them. An infant, however, is liable for "necessaries" supplied to him; though whether the article supplied is a "necessary" depends on the circumstances and condition of life of the infant. In some classes of contract—as, for instance, where the infant has acquired an interest in land, or shares in a company—the law presumes that he has ratified it if he has not repudiated it before, or within a reasonable time after, he has come of age. The disadvantage of entering into a contract with an infant is that *he* is not bound, though the other party to the contract is liable and may be sued for breach of a contract which he in turn cannot enforce. Moreover, an infant probably cannot be made bankrupt.

A widow can, of course, be a sole trader; and now a married woman is capable of entering into contracts and rendering herself liable thereon *to the extent of her separate property*, and she may

sue and be sued in all respects as if she were unmarried. She can, however, only be made bankrupt in respect of her separate estate, and unless it is proved that she is possessed of separate estate an order cannot be made against her.

2.—**Capital required.** The legal capacity to carry on a business is not of itself sufficient to ensure success. A person who desires to enter into business must be provided with sufficient *fixed and working capital.* In view of the easy way in which credit may be obtained in these days, many an employee holding a good position is tempted to start a business of his own on borrowed capital. The risk borne by the creditor, however, has frequently to be met by the payment of excessively high rates of interest, and this handicaps the business in its competition with others in the same line, as well as prevents the realisation of a satisfactory rate of profit. A person who cannot start a business without credit will do well to find security in order to avoid the otherwise onerous conditions which might be imposed upon him by the lender.

3.—**Qualifications necessary.** In addition to a sufficiency of capital, the person who is embarking upon business on his own account must be in possession of the right *mental qualities.* The trader must know how to carry on his business in a practical manner so that he may manage it efficiently. With this end in view he must strive to acquire a sound training in modern business methods, which should be preceded by a sound education in general school subjects. A person who thinks he can successfully manage a business without such knowledge will soon come to grief. It is of great importance to have an intimate knowledge of the goods and of the prevailing usages in the particular branch of business which he has chosen to enter. The endeavour to earn money easily and without trouble leads to disaster; and especially in the sphere of commerce it tends to result in the adoption of questionable means. For this reason strength of character, independence of thought and action, honesty and probity are the embellishments of a merchant, and confer upon him a reputation which helps greatly to smooth out his path.

4.—**Registration of a Sole Trading Concern.** Before the war a person could carry on a business under almost any name he chose, provided it did not clash with that of any other concern so as to interfere with the proper conduct of its business. But according to the provisions of the Registration of Business Names Act, 1916, any individual carrying on business under a name other than his true name must be registered, and the Registrar's certificate must be exhibited in a conspicuous position at the principal place of business of the individual. Moreover, a

sole trading concern carrying on business under a fictitious name must state in all trade catalogues, trade circulars, show cards, etc., in which the business name appears, the proprietor's present Christian names, or initials, and present surnames, any former Christian names and surnames, and the nationality if not British. This Act was designed to prevent persons of alien origin from carrying on business under a fictitious name without revealing their true names.

5.—**Taking over a Business.** If a business passes over to another person by inheritance, the heir has to declare whether or not he intends to continue the concern. In the latter case he is only liable for the debts to a limited extent. If he decides to carry on the business, however, he has unlimited liability for all existing obligations, and on the other hand he has a claim to all outstanding debts. The right to decline the inheritance is within the power of the individual. The former name of the business may continue unchanged, but the inheritor has the right to make an addition to it by describing his successorship—thus, Jones and Co.: Successor, James Brown.

If he changes the name of the firm, however, he must conform to the requirements of the Registration of Business Names Act, 1916.

If a person acquires an existing business by purchase, he can continue the style of the former business only if the seller or the heirs of the deceased owner give their expressed consent. The name of the firm, apart from the business itself, cannot be sold. If the business is continued under the old style, the incoming owner is usually liable for all properly proved liabilities of the former owner, and he also becomes entitled to all debts due to the old business

If a new arrangement is entered into with regard to the future conduct of the business, a communication should be addressed by the former owner to all persons who are likely to be interested. The communication would assume a form similar to the following:—

6.—**Circular *re* Sale of Business.**

F. J. ALLWOOD,
FAMILY GROCER,
TEA DEALER AND PROVISION MERCHANT

'PHONE 370.

1 TALBOT STREET,
CARDIFF, *15th February* 1924.

DEAR SIR or MADAM,—I beg to inform you that I have sold my property and business at Talbot Street to Mr P. L Dodington, and in future my business will be carried on at the Cathedral Stores, Cathedral Road, only.

sue and be sued in all respects as if she were unmarried. She can, however, only be made bankrupt in respect of her separate estate, and unless it is proved that she is possessed of separate estate an order cannot be made against her.

2.—**Capital required.** The legal capacity to carry on a business is not of itself sufficient to ensure success. A person who desires to enter into business must be provided with sufficient *fixed and working capital.* In view of the easy way in which credit may be obtained in these days, many an employee holding a good position is tempted to start a business of his own on borrowed capital. The risk borne by the creditor, however, has frequently to be met by the payment of excessively high rates of interest, and this handicaps the business in its competition with others in the same line, as well as prevents the realisation of a satisfactory rate of profit. A person who cannot start a business without credit will do well to find security in order to avoid the otherwise onerous conditions which might be imposed upon him by the lender.

3.—**Qualifications necessary.** In addition to a sufficiency of capital, the person who is embarking upon business on his own account must be in possession of the right *mental qualities.* The trader must know how to carry on his business in a practical manner so that he may manage it efficiently. With this end in view he must strive to acquire a sound training in modern business methods, which should be preceded by a sound education in general school subjects. A person who thinks he can successfully manage a business without such knowledge will soon come to grief. It is of great importance to have an intimate knowledge of the goods and of the prevailing usages in the particular branch of business which he has chosen to enter. The endeavour to earn money easily and without trouble leads to disaster; and especially in the sphere of commerce it tends to result in the adoption of questionable means. For this reason strength of character, independence of thought and action, honesty and probity are the embellishments of a merchant, and confer upon him a reputation which helps greatly to smooth out his path.

4.—**Registration of a Sole Trading Concern.** Before the war a person could carry on a business under almost any name he chose, provided it did not clash with that of any other concern so as to interfere with the proper conduct of its business. But according to the provisions of the Registration of Business Names Act, 1916, any individual carrying on business under a name other than his true name must be registered, and the Registrar's certificate must be exhibited in a conspicuous position at the principal place of business of the individual. Moreover, a

sole trading concern carrying on business under a fictitious name must state in all trade catalogues, trade circulars, show cards, etc., in which the business name appears, the proprietor's present Christian names, or initials, and present surnames, any former Christian names and surnames, and the nationality if not British. This Act was designed to prevent persons of alien origin from carrying on business under a fictitious name without revealing their true names.

5.—**Taking over a Business.** If a business passes over to another person by inheritance, the heir has to declare whether or not he intends to continue the concern. In the latter case he is only liable for the debts to a limited extent. If he decides to carry on the business, however, he has unlimited liability for all existing obligations, and on the other hand he has a claim to all outstanding debts. The right to decline the inheritance is within the power of the individual. The former name of the business may continue unchanged, but the inheritor has the right to make an addition to it by describing his successorship—thus, Jones and Co.: Successor, James Brown.

If he changes the name of the firm, however, he must conform to the requirements of the Registration of Business Names Act, 1916.

If a person acquires an existing business by purchase, he can continue *the style of the former business only if the seller or the* heirs of the deceased owner give their expressed consent. The name of the firm, apart from the business itself, cannot be sold. If the business is continued under the old style, the incoming owner is usually liable for all properly proved liabilities of the former owner, and he also becomes entitled to all debts due to the old business.

If a new arrangement is entered into with regard to the future conduct of the business, a communication should be addressed by the former owner to all persons who are likely to be interested. The communication would assume a form similar to the following:—

6.—**Circular *re* Sale of Business.**

F. J. ALLWOOD,

FAMILY GROCER,

TEA DEALER AND PROVISION MERCHANT.

'PHONE 370.

1 TALBOT STREET,
CARDIFF, *15th February* 1924.

DEAR SIR or MADAM,—I beg to inform you that I have sold my property and business at Talbot Street to Mr. P. L. Dodington, and in future my business will be carried on at the Cathedral Stores, Cathedral Road, only.

The change takes place next Wednesday, 20th February.

After that date any business transacted at Talbot Street will be in favour of Mr. Dodington. In order to prevent confusion it would be a very great advantage to me if you would be good enough to pay the enclosed account on or before 1 P.M. next Wednesday at Talbot Street, and also for any goods purchased in the meantime.

May I take this opportunity of expressing my very sincere thanks for the business you have given me in the past?

Yours faithfully,

FRED. J. ALLWOOD.

Account enclosed.

7.—A further circular would be addressed by the new owner as follows, and this might with advantage be sent with the former circular. It could also be advertised in the local press, so that the utmost publicity might be secured.

Circular *re* Purchase of Business.

1 TALBOT STREET,
CARDIFF, *15th February* 1924.

Mr. P. L. Dodington, of Millicent Street, Cardiff, has pleasure in announcing to his patrons and the general public that he has acquired the old-established business carried on by Mr. Allwood at the above address, and that he intends to continue the business in the most modern and up-to-date manner, which will ensure to all his patrons and customers ready and willing service. Only the very choicest and freshest goods will be offered, and your support is confidently appealed for and will be welcomed to our mutual advantage.

P. L. DODINGTON.

8.—**Starting a Retail Business.** Assuming that the person commencing a retail business had decided where he was going to open his retail shop and the line of business he would take up, the first thing to discuss would be the market for his wares. If he were dealing in an everyday household article, he would have to face the competition of the departmental stores and other retail concerns. He must therefore see that his business is well organised, with polite assistants, a clean shop, and a tastefully arranged stock. He would also have to buy carefully and in the best market. He should aim at providing a good article, so that his customers may repeat their orders. It would be well to consider the question of advertising either in the local newspapers or by circulars, and a special effort should be made in this direction at the commence-me[illegible] so as to get a good start. The trader must also keep an e[illegible]n his purchases and his sales on credit. "Over-buying" h[illegible]en fatal to more than one small trader. Goods for which th[illegible]on changes rapidly must be bought with great care, a[illegible] supply must be kept in hand to meet possible demands. It [illegible]nes advisable, too, to clear at a sacrifice a stock which b[illegible] old-fashioned. It is certain to pay in the long run.

Chapter II

ASCERTAINMENT OF THE PROBABLE PROFIT

9.—**Preliminary Considerations.** A person who intends to establish a business should first form an estimate of the probable profit of the undertaking, if he desires to avoid trouble at a subsequent period. In the first place, he must consider the kind of business, whether wholesale or retail, open shop or mail order, and also the probable magnitude of the business. To a large extent his decision on these matters will determine the amount of capital which will be required, the choice of the business site, and the necessary staff.

The magnitude of the business will be determined largely by the amount of capital possessed by the owner and by the amount of credit he intends to raise. The building up of a business solely on borrowed capital is a risky experiment: for one thing, the interest payable will swallow up a considerable portion of the earnings, whilst the borrower is always dependent upon his lenders and their good-will; thirdly, he is not able to cope with competitors who carry on business with their own capital.

Though banks, wholesalers, and manufacturers, who have to try and turn over their capital or obtain a sale for their goods, frequently make it easy for the venturesome individual to establish his own business by offering him credit, such a concern will rest on a weak foundation, and in the case of failure the creditor is very often dragged down with it. It would be saying too much, however, to conclude that only those businesses are sound which work exclusively with their own capital, for without some form of credit it is scarcely possible to carry on a business or to extend an existing business which is capable of extension. Under no circumstances, however, should more credit be raised than can be covered by one's own capital. Nor is it advisable to invest more capital in a business than is necessary; otherwise the rate of revenue will be diminished.

10.—**Fixed and Liquid Capital.** When it is clear how much capital will be required, the next step is to decide how much of it shall be tied up in the business as fixed assets, and how much of it shall remain liquid. In an ordinary trading concern a small portion only will have to be invested in fixed

assets, such as land and buildings, furniture, etc.; the larger part must be reserved as liquid capital. The trader's own capital should be employed for the acquirement of the fixed assets, so that a portion of this capital can, if necessary, be rendered liquid again by raising a mortgage on it. Care should be taken that the stock is not too large, since it may easily depreciate by long warehousing, as well as resulting in a considerable loss of interest on capital. Moreover, the trader, and especially the inexperienced trader, will have to reckon with the fact that a portion of his debts will be paid later than he expected, and some of them perhaps not at all. He must take care that these circumstances do not place him in an awkward position, and there ought always to be sufficient liquid capital in reserve to enable him to fulfil his obligations. If he has considered all these circumstances, he can calculate whether his capital is sufficient for the establishment of a business on the proposed scale, or whether the magnitude of the business should be reduced.

After he has become clear on this matter, he will be able to form an idea of the probable turnover, since the amount of his expenses and the anticipated profit will depend upon this figure. A portion of the expenses will remain stationary, no matter whether the turnover rises or falls. This is the case in regard to heating, lighting, rent, cleaning, etc.; whilst, on the other hand, freights, customs duties, cartage, salaries, etc., grow in proportion to the turnover. In relation to the *standing expenses*, the profit diminishes with a fall in the turnover, and it rises with an increase in the turnover; on the other hand, with an increase in the turnover the other expenses cannot be reduced to any great extent. It may be asserted that as a rule the expenses rise with the growth of the turnover, and that compared with the capital employed the profit in large undertakings is, generally speaking, *proportionately* smaller than in the case of small undertakings.

11.—**Gross and Net Profits.** The anticipated profit, that is, the *gross* profit, must be determined under any circumstances before opening a business. The basis to be taken for the estimate is the anticipated turnover, for only in this way will the trader be able to calculate how much of it will probably go to make up the net profit. In many retail concerns the gross profit represents a fairly constant proportion of turnover. The *net* profit should be ascertained by deducting from the anticipated gross profit all the remaining expenses, such as interest on capital, rent, salaries, rates and taxes, office expenses, freights, customs duties, postages, discounts allowed, insurances, losses through bad debts, depreciation on furniture and fittings, loss on goods through external

causes, cost of advertising, and other anticipated expenses. There may be a few other sources of profit, e.g. discounts received, but it is not wise to include these for the purpose of estimating profits. Where no appreciable surplus results from the calculation, in most cases it would be better to accept a well-paid salaried post than to burden oneself with the troubles and trials of a doubtful independence.

12.—**Goodwill.** Closely connected with the profit of the business is the goodwill. This is an intangible asset, the value of which is often difficult to ascertain. An attempt at valuation, however, is made in cases where the business is sold, reconstructed, etc., and also by revenue officers for the purpose of assessing death duties. It consists of the favourable opinion on the part of a portion of the purchasing public in some cases, and in the favourable position of the business site in others, as with a hotel near a railway station, or a corner shop, or a shop on the most frequented side of a busy street. Favourable opinion may be obtained through excellence in the quality of goods; by good service; by the possession of a widely known trade-mark, and in some cases through the mere personality of the owner of the business (e.g. a publican), or through his skill (e.g. a lawyer).

The main proof of the value of goodwill lies in the extent of the clientele and the volume of trade. In building up a business, advertising plays a large part and thus beneficially affects the value of the goodwill. Moreover, advertised goods are generally of a higher and more uniform quality than those which are not advertised; if this was not the case money laid out on advertising would be badly spent. The transfer value will therefore be great, since the public is not so much concerned with the firm from which it buys but with the quality of the goods that it purchases. On the other hand, some goods need a heavy advertisement bill to sell them, whilst others practically sell themselves, when the position will be reversed.

Other things being equal, the business which needs the least management will have the most valuable goodwill, since the prospective purchaser of the business will naturally take into account when assessing profits and return on outlay of capital the value of his own labour and the amount of worry he will have to undergo whilst conducting it. The transfer of the goodwill is concurrent with the transfer of a trading concern, and the transfer agreement usually precludes the transferor from competing with the transferee in the same line of business in the same district.

Chapter III

CHOICE OF THE LOCALITY AND SITE OF THE BUSINESS

13.—**Localisation of Industries.** Taking the extractive branches of Industry first, it is obvious that production can only be carried on where the raw materials, such as minerals, coal, fish, etc., are found, and in the case of agriculture, on the land, where suitable. But the questions of climate, food resources, and accessibility must be considered. Coal may be obtained more easily in Spitzbergen than in England, but in the former country food supplies are lacking, the climate is inhospitable, and the place itself is not easy to reach during part of the year. The same obstacles are encountered in the West Australian gold-fields, but gold being of greater comparative value, these obstacles are disregarded. Similarly, precious stones are sought for in the interior of Brazil, while bulky minerals of less value are disregarded. In agriculture accessibility is of great importance, and in new districts, as in Canada and Siberia, agriculture is carried on near rivers and railways, chiefly in the lowlands. In the manufacture of heavy iron and steel goods, it is generally found necessary to bring the ore to the site of the fuel supply, but a heavy metal industry will only grow up in a place where easy communication with other places is possible. Thus, in England and Scotland heavy metal industries are carried on at Tyneside, Furness, the Clyde, etc. Where exceptionally good transport facilities exist, the fuel may be transported, as in the case of the lake district of the United States; although the iron ore of Lake Superior is taken to Pittsburg, Pennsylvanian coal is taken to iron smelting lake ports.

In the case of articles requiring more workmanship and less raw material and fuel, natural advantages are of less importance. Thus, small metal industries are carried on in Birmingham; while the watchmaking industry in Switzerland is carried on in a relatively inaccessible district.

Climate exerts a great influence on textile industries. The most humid valleys of Lancashire are the sites of spinning mills, while weaving can be carried on in relatively drier spots. Lowell (United States) needs humidifiers in its cotton mills.

Conditions which are good for the cotton industry are bad for the milling industry, the finest flour being milled in the driest climate.

A temperate climate appears to be the most suitable for manufactures, on account of the necessity for continuous effort and the vivifying effect that such a climate has on the intellect and inventive powers.

14.—**The Trader's Business.** The nature of the trader's business determines in the first place the locality of the undertaking, and this in turn determines the actual site. A **Retail Trader** must form a clear idea of the class of persons with whom he will have to deal as customers, and he must be thoroughly acquainted with their habits of life, their needs, and the way in which they should be treated. The selection of the locality may also be influenced by the situation of the source of supply (that is, the manufactures, agriculture, etc).

The position of the business will be determined not only by the articles of sale, but also by the requirements of the neighbourhood. Shops engaged in the sale of articles of fashion, ready-made clothes, boots and shoes should be confined to the well-frequented thoroughfares. Businesses dealing in foodstuffs and catering for the daily wants of the people must get as near as possible to their customers, and they should select a site where large masses of people congregate on pay days or market days.

The **Wholesale Business** is influenced by other factors. For this trade it may be necessary for the business man to settle down in the area which produces his articles of sale, or to have its seat at a port, trade centre, railway junction, or at a place of transshipment.

At any rate, neither retailers nor wholesalers must underestimate the importance of position. If the retail trader is not to be out-rivalled by his competitors he must move his business as close as possible to his prospective customers. In the selection of the locality of his business, the wholesale merchant must keep in mind above all the possibility of a quick and cheap supply and sale, and he must take into consideration the facilities for transport. In most towns a dislocation of traffic takes place suddenly. The building of a new railway station, the construction of a port, the making of a new thoroughfare, may in a short time divert the system of traffic into other channels, and force the merchant to change the position of his business.

It is of great importance to decide whether the business is to be carried on in one's own or in hired premises. Where sufficient capital is available, and where the trader is reasonably sure that the business will yield an adequate profit, it is advisable to

Chapter III

CHOICE OF THE LOCALITY AND SITE OF THE BUSINESS

13.—**Localisation of Industries.** Taking the extractive branches of Industry first, it is obvious that production can only be carried on where the raw materials, such as minerals, coal, fish, etc., are found, and in the case of agriculture, on the land, where suitable. But the questions of climate, food resources, and accessibility must be considered. Coal may be obtained more easily in Spitzbergen than in England, but in the former country food supplies are lacking, the climate is inhospitable, and the place itself is not easy to reach during part of the year. The same obstacles are encountered in the West Australian gold-fields, but gold being of greater comparative value, these obstacles are disregarded. Similarly, precious stones are sought for in the interior of Brazil, while bulky minerals of less value are disregarded. In agriculture accessibility is of great importance, and in new districts, as in Canada and Siberia, agriculture is carried on near rivers and railways, chiefly in the lowlands. In the manufacture of heavy iron and steel goods, it is generally found necessary to bring the ore to the site of the fuel supply, but a heavy metal industry will only grow up in a place where easy communication with other places is possible. Thus, in England and Scotland heavy metal industries are carried on at Tyneside, Furness, the Clyde, etc. Where exceptionally good transport facilities exist, the fuel may be transported, as in the case of the lake district of the United States; although the iron ore of Lake Superior is taken to Pittsburg, Pennsylvanian coal is taken to iron smelting lake ports.

In the case of articles requiring more workmanship and less raw material and fuel, natural advantages are of less importance. Thus, small metal industries are carried on in Birmingham; while the watchmaking industry in Switzerland is carried on in a relatively inaccessible district.

Climate exerts a great influence on textile industries. The most humid valleys of Lancashire are the sites of spinning mills, while weaving can be carried on in relatively drier spots. Lowell (United States) needs humidifiers in its cotton mills.

Conditions which are good for the cotton industry are bad for the milling industry, the finest flour being milled in the driest climate.

A temperate climate appears to be the most suitable for manufactures, on account of the necessity for continuous effort and the vivifying effect that such a climate has on the intellect and inventive powers.

14.—**The Trader's Business.** The nature of the trader's business determines in the first place the locality of the undertaking, and this in turn determines the actual site. A **Retail Trader** must form a clear idea of the class of persons with whom he will have to deal as customers, and he must be thoroughly acquainted with their habits of life, their needs, and the way in which they should be treated. The selection of the locality may also be influenced by the situation of the source of supply (that is, the manufactures, agriculture, etc.).

The position of the business will be determined not only by the articles of sale, but also by the requirements of the neighbourhood. Shops engaged in the sale of articles of fashion, ready-made clothes, boots and shoes should be confined to the well-frequented thoroughfares. Businesses dealing in foodstuffs and catering for the daily wants of the people must get as near as possible to their customers, and they should select a site where large masses of people congregate on pay days or market days.

The **Wholesale Business** is influenced by other factors. For this trade it may be necessary for the business man to settle down in the area which produces his articles of sale, or to have its seat at a port, trade centre, railway junction, or at a place of transshipment.

At any rate, neither retailers nor wholesalers must underestimate the importance of position. If the retail trader is not to be out-rivalled by his competitors he must move his business as close as possible to his prospective customers. In the selection of the locality of his business, the wholesale merchant must keep in mind above all the possibility of a quick and cheap supply and sale, and he must take into consideration the facilities for transport. In most towns a dislocation of traffic takes place suddenly. The building of a new railway station, the construction of a port, the making of a new thoroughfare, may in a short time divert the system of traffic into other channels, and force the merchant to change the position of his business.

It is of great importance to decide whether the business is to be carried on in one's own or in hired premises. Where sufficient capital is available, and where the trader is reasonably sure that the business will yield an adequate profit, it is advisable to

start in one's own premises. In this case, the rent to be allowed for the premises will almost invariably be lower than that which would have to be paid for hired premises. Should the business prove a success, the value of the property will increase, and the opportunity will thus be afforded of obtaining a large profit by the sale of the premises and the goodwill. Moreover, it is an advantage to be free from continual notices to quit, or to be subject to constant increases in rent. Finally, it must be borne in mind that extensions and alterations can be executed more cheaply and easily on one's own premises. Against these advantages we must not overlook the fact that the tying up of capital in this way leads to the withdrawal from the business of considerable sums which, in the case of a growing turnover, may necessitate the procuring of extensions by means of credit. Again, where traffic is diverted to other streets or districts, the difficulty of following it is increased when the trader is tied to his own premises. Persons who are just beginning in business, who cannot operate with a large capital, or who are uncertain as to the probable profits, may find it advisable to lease premises with the option of purchase.

15.—**Home Trade *v.* Foreign Trade.** The paramount functions of a trader being to buy and sell, he must, in establishing a business, make a particular study of the local and general conditions governing his sources of supply and outlets for the goods of which he disposes.

The home trader has his market at his door-step; and since his trade relations are with his own countrymen, he encounters no difficulty in establishing intimate contact with his customers. All the means of publicity are ready to hand: advertising in his own language, sending out commercial travellers, the rapid inland postal service, the telephone, etc. Again, the home trader has every opportunity of gauging the needs of those on the demand of whom his business depends; there are no barriers of language, national idiosyncrasies, or strange economic conditions governing the nature of the demand. Where the trader has to concern himself with goods of foreign origin, he would probably be well advised to establish his business either at a seaport or in an inland town enjoying good communication with the seaboard. The choice of locality would, however, depend very largely upon the situation of his markets, and here the nature of the commodities and the extent of the business would be factors of importance. For example, a retail business could be established anywhere where there is a sufficiency of suitable customers, but a wholesale importer or exporter must take account of his sources of supply and the conditions of transport—factors which increase in importance with the bulkiness of the goods to be hauled. Generally,

however, traders seek their markets and establish themselves in proximity to their prospective clientele. In pre-war days a foreign currency presented little obstacle to the trader's activities, but with the temporary distortion and instability of foreign exchanges this can no longer be said. Here, therefore, the home trader enjoys an additional advantage, since he can quote his prices and receive payment in a stable medium.

Chapter IV

THE STAFF

16.—**Engagement of Staff.** With the object of procuring the necessary staff the merchant or manufacturer generally employs the medium of an advertisement. This should be brief in form, without giving rise to any doubt as to what is expected of the person advertised for. If this is not done, the employer will be inundated by shoals of offers, and much time and expense will in consequence be wasted. There are, however, special *employment agencies* as well as employment bureaux in connection with most of the large technical and commercial colleges. In any case, it is advisable to take up references concerning the applicants and to examine carefully their testimonials, including those from the schools they last attended. If the testimonials are satisfactory and the references good, then it is advisable for the principal to interview the selected applicants in person so as to form a better opinion of them. Where an appointment results, a form of engagement should be drawn up stipulating the notice to be given, the period of probation, general statement of duties and any other particulars. Care should also be taken to ensure that the prospective employee is made acquainted with the regulations of the business to which he will give his consent by signing the engagement form. In some cases it will be the duty of the principal to see that the employee joins an insurance society in accordance with the provisions of the National Insurance scheme.

17.—**Staff Requirements.** For the purpose of ascertaining the number of commercial and other assistants which will be required, it is necessary at the outset to draw up an exact scheme. The nature and magnitude of the business will enable us to discern the scale to be assumed by direct sale, mail order business, the stock-room, correspondence, book-keeping, travelling, window dressing, advertising, etc., and the number of staff which will be required for these various tasks. In forming a preliminary estimate it must be remembered that the various activities of the members of the staff must dovetail in with each other, for by a suitable division of labour on the one hand and the co-ordination of the various individual activities into an organic whole on the other hand, much time and effort will be saved. A detailed

scheme of organisation defines the place and function of each member in the concern and helps the management to ensure that work will proceed harmoniously and without any interruption. If undesirable differences of opinion are to be avoided, the owners of the business as well as the employees must be absolutely clear in regard to their respective rights and obligations.

18.—**The Manager.** Owners of business concerns who are *frequently on travels or who have to remain away from business for* prolonged periods on account of illness, advanced age, etc., or who owing to the extension of business cannot manage the undertaking by themselves, usually nominate as their representatives persons *who are authorised to undertake business on their behalf.* A person may receive power to act for his principal by means of a document known as a *power of attorney,* drawn up in proper legal form, and embossed with a ten shilling deed stamp. The power of attorney should state clearly the purposes for which the person is authorised to act and bind his principal. The nomination of such an agent is frequently due to the establishment of a branch, or the recognition of particularly faithful services, or the idea may be to retain a very efficient employee. The procurist may be called upon by third parties to produce his credentials.

Any one authorised to act for a company would sign as follows :—

NATIONAL PROVISION SUPPLY COMPANY, LTD.
JOHN BROWN,
SECRETARY.

Another form frequently used is :—

For and on behalf of
NATIONAL PROVISION SUPPLY COMPANY, LTD
JOHN BROWN,
SECRETARY.

Sometimes a power to act on behalf of a company is given to several persons at the same time, with the proviso that they can only act collectively. Such persons would sign in the following manner :—

NATIONAL PROVISION SUPPLY COMPANY, LTD.
JOHN BROWN } *Managers.*
WILLIAM JONES }

The power of the procurist is limited by the authority conferred, and as a rule it does not permit him to raise a mortgage or to sell land. Likewise the procurist is not entitled to perform acts which the owner of the business must carry out in person such as

Chapter IV

THE STAFF

16.—**Engagement of Staff.** With the object of procuring the necessary staff the merchant or manufacturer generally employs the medium of an advertisement. This should be brief in form, without giving rise to any doubt as to what is expected of the person advertised for. If this is not done, the employer will be inundated by shoals of offers, and much time and expense will in consequence be wasted. There are, however, special *employment agencies* as well as employment bureaux in connection with most of the large technical and commercial colleges. In any case, it is advisable to take up references concerning the applicants and to examine carefully their testimonials, including those from the schools they last attended. If the testimonials are satisfactory and the references good, then it is advisable for the principal to interview the selected applicants in person so as to form a better opinion of them. Where an appointment results, a form of engagement should be drawn up stipulating the notice to be given, the period of probation, general statement of duties and any other particulars. Care should also be taken to ensure that the prospective employee is made acquainted with the regulations of the business to which he will give his consent by signing the engagement form. In some cases it will be the duty of the principal to see that the employee joins an insurance society in accordance with the provisions of the National Insurance scheme.

17.—**Staff Requirements.** For the purpose of ascertaining the number of commercial and other assistants which will be required, it is necessary at the outset to draw up an exact scheme. The nature and magnitude of the business will enable us to discern the scale to be assumed by direct sale, mail order business, the stock-room, correspondence, book-keeping, travelling, window dressing, advertising, etc., and the number of staff which will be required for these various tasks. In forming a preliminary estimate it must be remembered that the various activities of the members of the staff must dovetail in with each other, for by a suitable division of labour on the one hand and the co-ordination of the various individual activities into an organic whole on the other hand, much time and effort will be saved. A detailed

scheme of organisation defines the place and function of each member in the concern and helps the management to ensure that work will proceed harmoniously and without any interruption. If undesirable differences of opinion are to be avoided, the owners of the business as well as the employees must be absolutely clear in regard to their respective rights and obligations.

18.—**The Manager.** Owners of business concerns who are frequently on travels or who have to remain away from business for prolonged periods on account of illness, advanced age, etc., or who owing to the extension of business cannot manage the undertaking by themselves, usually nominate as their representatives persons *who are authorised to undertake business on their behalf.* A person may receive power to act for his principal by means of a document known as a *power of attorney*, drawn up in proper legal form, and embossed with a ten shilling deed stamp. The power of attorney should state clearly the purposes for which the person is authorised to act and bind his principal. The nomination of such an agent is frequently due to the establishment of a branch, or the recognition of particularly faithful services, or the idea may be to retain a very efficient employee. The procurist may be called upon by third parties to produce his credentials.

Any one authorised to act for a company would sign as follows :—

NATIONAL PROVISION SUPPLY COMPANY, LTD.
JOHN BROWN,
SECRETARY.

Another form frequently used is :—

For and on behalf of
NATIONAL PROVISION SUPPLY COMPANY, LTD.
JOHN BROWN,
SECRETARY.

Sometimes a power to act on behalf of a company is given to several persons at the same time, with the proviso that they can only act collectively. Such persons would sign in the following manner :—

NATIONAL PROVISION SUPPLY COMPANY, LTD.
JOHN BROWN } *Managers*
WILLIAM JONES }

The power of the procurist is limited by the authority conferred, and as a rule it does not permit him to raise a mortgage or to sell land. Likewise the procurist is not entitled to perform acts which the owner of the business must carry out in person such as

swearing an oath, signing a balance-sheet, or making a declaration to the income tax authorities.

A procurist who signs "per pro" specifically holds himself out as having but a limited authority, and for this reason other parties having dealings with him are bound to inquire as to the extent of his authority.

19.—**Shop Assistants.** The legal position of the shop assistant is that of an employee. As in the case of apprentices so with shop assistants—the principal is compelled according to the provisions of the Shop Acts to arrange and regulate the conditions and working hours in such a manner that any danger to health, morality and decency is avoided. According to the provisions of the Shop Acts, the assistants must have an adequate interval for meals at noon. In the event of an accident through no fault of his own, the assistant has the right to compensation as well as to benefits from any sickness insurance to which he may be entitled. Wages are usually payable at the end of each week or month, and the period of notice specified in the contract must be the same for both employer and employee. If the contract does not stipulate anything in this respect the period of notice is usually weekly or monthly according to the payment of wages.

Sometimes a contract of service will stipulate that the shop assistant, after renouncing his position may not enter a similar business within a certain period and within a certain radius from the business of his employer. This clause is inoperative if the restriction imposed upon the assistant acts unfairly or harshly against his making a living. In the latter case the court is competent to set aside such a contract as being in undue restraint of trade. On the renunciation of his position, the assistant may request a testimonial, in which it is usual to certify the nature and duration of his employment together with a statement of his capacity and conduct. In general, the assistant is expected to be loyal to his employer and to show himself worthy of the confidence reposed in him.

20.—**The Salesman.** As this member of the staff is in permanent intercourse with the customers, he is expected to adopt an amiable and willing demeanour towards the customers. The chief necessity for the salesman is the handling of a good article; the next is the conviction of the salesman that his article presents the best possible value; and thirdly, the ability of the salesman to transfer this conviction to the customer. It is a comparatively easy matter to pull off *one* order from a concern, but the successful salesman is he who gets the "repeats," and it is only on the repeats that a firm can build up a successful business. We will imagine that the article is one of good value, and that it

rests with the salesman entirely whether the sales are good or bad (which is the same thing as saying whether the customers are satisfied or not), then the primary quality of the salesman, other than that of conviction of the merits of his goods, is abundant tact, and the rest is unbounded optimism. He must be able to sense the requirements of his customers as sometimes they have only hazy ideas of what they require, and then he must so lead them that apparently they have described their wants and the salesman has simply satisfied them. It is not sufficient to sweep a customer off his feet by a flood of elocution and thus force him to buy against his will. When time for reflection comes, this customer's business will invariably be lost, never to return. The good points of the article should be carefully presented and at the same time the salesman should be able to anticipate adverse criticism and be prepared to crush it. Perfect civility is necessary always, no matter how rude customers may be, as the object of the firm and the salesman is to satisfy—not to give cause for complaint. The salesman's duty is not, however, finished with the sale; this is especially the case as regards machinery, and the judicious visit paid to the customer to see how the machine is working still further satisfies the customer by making him appreciate the personal interest shown by the firm, and even if no repeats come from him his recommendation to others will be beneficial. The question of service after sale does not appear to be sufficiently developed in England, although a great point of it is made by American manufacturers.

In small concerns the salesman is sometimes expected to possess skill and taste in dressing the windows. In large businesses a special window dresser is frequently employed for this purpose, and he sometimes holds the position of shop-walker also; in this capacity he receives the customers at the door, asks what they desire and directs them to the section they seek. For a position of this description it is necessary that a person should have a good deportment and be of good address.

21.—**The Cashier.** This person is responsible for the financial operations of the undertaking, and through his hands all receipts and payments have to pass. He must be a good arithmetician who can undertake his duties without haste, yet with rapidity and accuracy, so that the work of the cashier's office may proceed without intermission. Great caution has to be exercised in accepting foreign money or interest coupons. The former is frequently counterfeited whilst the latter may have already lost their validity. After closing time, the amount of cash received is compared with the figures recorded by the cash registers and on agreement of the figures they are then entered

into the cash book. One of the chief duties of the cashier is that of keeping the cash book in which are entered all financial transactions. Faithfulness and absolute integrity are his primary qualifications.

22.—**The Petty Cashier.** All items of small expenditure, such as tram fares, string, sealing-wax, telegrams, etc., are entered into a petty cash book which is kept by a clerk known as the petty cashier. The petty cash book is usually kept upon what is known as the Imprest System. That is, at the beginning of a certain period a round sum, say £10, is advanced to the petty cashier out of which all petty expenses are to be met. At the end of the period the total payments are refunded by the chief cashier, thus restoring the balance in hand at the beginning of the next period to the original £10. The petty cash book is usually ruled with columns for analysing under various heads the items of expenditure. From the example given on the next page it will be seen that the total of the analysis columns must agree with the total of the cash payments. The total amount of petty expenses is generally entered into the principal cash book at the end of each month.

23.—**The Stock-Keeper** supervises the incoming and outgoing goods. It is his duty to keep the stock in an orderly condition so that there is no needless search for goods or any uncertainty as to whether there are sufficient stocks in hand. Hence, for the purpose of controlling the goods, a portion of the book-keeping has to be transferred to the warehouse. The stock accounts are kept in the stock book by the stock-keeper and must be audited at least once a month in order to ascertain whether the actual stock tallies with the amount shown in the books. In order to facilitate a rapid control, the goods must be arranged in a practical order. Small articles in original packages must be placed into suitable receptacles, each containing a stated quantity so that it may be ascertained easily what quantity of each article is in stock. Where goods are sold by weight, as in the case of tea and coffee, the weight contained in each package should be marked plainly either on the package or on a label attached to it. If any package has been broken into the amount withdrawn should be marked on the label attached.

Separate stock accounts are kept for the various kinds of goods, and it is sufficient if the stock accounts merely give the quantities of the incoming and outgoing goods, any reference to prices being unnecessary. The various qualities are distinguished from each other by particular descriptions, such as letters or numbers. In a firm of any size each quality of one and the same kind of goods is entered into a separate account in the stock book, and by balancing the accounts it is possible to ascertain at any moment what quantity of the particular goods is in stock.

PETTY CASH BOOK

Dr. *Cr.*

Date	Particulars	£	s.	d.	Date.	Details of Payments	Postages, etc £	s.	d.	Carriage and Cartage. £	s.	d.	Cleaning. £	s.	d.	Advertisements. £	s.	d.	Sundries. £	s.	d.	Ledger. Folio.	Ledger. £	s.	d.	Voucher Number.	Total. £	s.	d.
1924 Sept 1	To Cash	20	0	0	1924 Sept. 1	By Sutton & Co. .					5	3														1		5	3
					" "	" Postage Stamps	3	0	0																	2	3	0	0
					" 2	" L.M.S. Railway . .					12	6														3		12	6
					" "	" Traveller's Expenses . .														3	9					4		3	9
					" "	" Brown & Co, Bristol .																S L 94	1	1	6	5	1	1	6
					" 3	" *D Telegraph* .											6	0								6		6	0
					" 4	" Telegram .														1	0					7		1	0
					" 5	" Office Cleaner .								4	0											8		4	0
					" 6	" Parcel Post .		2	3																	9		2	3
					" 7	" Smith Bros, Lime Street, W.C. .																S L. 98	4	1	0	10	4	1	0
					" "	" Stationery .													1	3	0					11	1	3	0
					" "	" Rent . .																I.L. 24	3	10	0	12	3	10	0
							£3	2	3		17	9		4	0		6	0	£1	7	9		£8	12	6		£14	10	3
							I.L. 12			I.L. 18			I.L. 22			I.L. 29			I.L. 38										
					1924 Sept 7	By Balance . .																				cd	5	9	9
		£20	0	0																							£20	0	0
1924 Sept 8	To Balance b/d	£5	9	9																									
" "	To Cash	14	10	3																									

24.—**The Correspondent.** Correspondence brings the business into touch with the outside world, and for this reason imposes upon the correspondent a number of serious obligations. Among these may be mentioned the need for legibility and regularity of handwriting or typewriting. Letters which are badly or carelessly written may excite a feeling of mistrust against the business itself or they may lead to misunderstandings and undesirable correspondence. The arrangement of the letter itself must be systematic, and any portions of importance might be emphasised by a change of type or by underlining; and everything should be discussed in the body of the letter so that there is no need for postscripts. The opinions and wishes of the correspondent must find expression in language which is both clear and concise. He must, therefore, possess a good knowledge of the language employed and of the business; excessive length or brevity, ambiguity, slang phrases and superfluous foreign words must be avoided and the correct rules of grammar must be adhered to. The correspondent must always be polite in tone even where there is a serious difference of opinion, but he must also refrain from an attitude of extreme servility which is repulsive to most people.

It is of great importance that the writer should be familiar with the previous correspondence and also with the peculiarities of the various business friends. In some businesses, therefore, the correspondence is shared out among the different departments so that the persons acquainted with the customers may conduct the correspondence.

25.—**The Book-keeper.** Whilst the aim of the correspondence is to establish relations between the business and the outside world, book-keeping devotes itself to the internal operations, and thus provides a general survey of the course of the business. Every increase, decrease or other alteration of value which takes place in the business must be recorded in the accounts. A good book-keeper must be perfectly familiar with the principles of accounting as applied to his particular business; at all times he must see that his books are kept in order and that the transactions are entered at the right time and with the necessary care. As the books may have to be produced in the case of bequest, dissolution of partnership and frequently in questions of taxation, it is the honourable duty of the book-keeper to ensure that the value of his work is not weakened as legal evidence by carelessness in the keeping of the accounts.

The work of the book-keeper is such as to bring him into the most intimate touch with the various transactions of the business, its relations to the proprietors, and the extent of

its profit, and for these reasons he is expected to be faithful and loyal to the business and discreet in the execution of his duties.

26.—**Dispatch Clerk.** The duty of the dispatch clerk is to prepare and execute the dispatch of goods. This must be carried out speedily since the customer desires to obtain the goods as soon as possible. The difficulty of organising the dispatch department increases with the number of the articles to be handled and with the variations in their price. Thus, for instance, large mail order firms which dispatch their goods in postal packets have an immense amount of dispatch work, since the handling of a large number of small articles gives rise to many errors and much confusion. On the other hand, where bulky and expensive goods are concerned, such as pianos or machinery, their dispatch scarcely requires any special skill in organisation, although much advertising and tactful correspondence are required. Much time and labour may be saved by collecting together the goods intended for a certain quarter of the town which are to be delivered by rail or by road. Loss is frequently avoided when the dispatch clerk is familiar with the names of the customers and when he refuses to dispatch unpaid goods before obtaining the fullest information concerning the consignees.

27.—**The Traveller.** In many concerns it is necessary that the customers should be visited personally from time to time in order that their complaints may be heard and their wishes ascertained. In some cases the principal himself undertakes this duty, but in others he employs for this purpose an assistant, who is known as the traveller. For the successful performance of this work many qualities are required, such as fluency of speech, good deportment, a sympathetic manner and the gift of discerning the tastes, views and wishes of the customers. In offering his goods the traveller must be clear and decisive in his statements, and he must record immediately in writing any orders received so as to avoid errors. He must not promise anything which his firm cannot fulfil, and he should not persuade customers to effect the purchase of quantities of which they cannot dispose. Moreover, the representative of a good firm will never run down the goods of his competitors; by so doing he runs the risk of having a lawsuit brought against him. In his endeavours to extend the business of his firm he must not forget to be cautious, and must procure precise and reliable information concerning new customers.

The exertions of travelling call for great physical endurance as well as moral firmness and integrity of character on account of the various kinds of temptations which assail the traveller. Before starting on his journey, the traveller prepares a collection of

24.—**The Correspondent.** Correspondence brings the business into touch with the outside world, and for this reason imposes upon the correspondent a number of serious obligations. Among these may be mentioned the need for legibility and regularity of handwriting or typewriting. Letters which are badly or carelessly written may excite a feeling of mistrust against the business itself or they may lead to misunderstandings and undesirable correspondence. The arrangement of the letter itself must be systematic, and any portions of importance might be emphasised by a change of type or by underlining; and everything should be discussed in the body of the letter so that there is no need for postscripts. The opinions and wishes of the correspondent must find expression in language which is both clear and concise. He must, therefore, possess a good knowledge of the language employed and of the business; excessive length or brevity, ambiguity, slang phrases and superfluous foreign words must be avoided and the correct rules of grammar must be adhered to. The correspondent must always be polite in tone even where there is a serious difference of opinion, but he must also refrain from an attitude of extreme servility which is repulsive to most people.

It is of great importance that the writer should be familiar with the previous correspondence and also with the peculiarities of the various business friends. In some businesses, therefore, the correspondence is shared out among the different departments so that the persons acquainted with the customers may conduct the correspondence.

25.—**The Book-keeper.** Whilst the aim of the correspondence is to establish relations between the business and the outside world, book-keeping devotes itself to the internal operations, and thus provides a general survey of the course of the business. Every increase, decrease or other alteration of value which takes place in the business must be recorded in the accounts. A good book-keeper must be perfectly familiar with the principles of accounting as applied to his particular business; at all times he must see that his books are kept in order and that the transactions are entered at the right time and with the necessary care. As the books may have to be produced in the case of bequest, dissolution of partnership and frequently in questions of taxation, it is the honourable duty of the book-keeper to ensure that the value of his work is not weakened as legal evidence by carelessness in the keeping of the accounts.

The work of the book-keeper is such as to bring him into the most intimate touch with the various transactions of the business, its relations to the proprietors, and the extent of

its profit, and for these reasons he is expected to be faithful and loyal to the business and discreet in the execution of his duties.

26.—**Dispatch Clerk.** The duty of the dispatch clerk is to prepare and execute the dispatch of goods. This must be carried out speedily since the customer desires to obtain the goods as soon as possible. The difficulty of organising the dispatch department increases with the number of the articles to be handled and with the variations in their price. Thus, for instance, large mail order firms which dispatch their goods in postal packets have an immense amount of dispatch work, since the handling of a large number of small articles gives rise to many errors and much confusion. On the other hand, where bulky and expensive goods are concerned, such as pianos or machinery, their dispatch scarcely requires any special skill in organisation, although much advertising and tactful correspondence are required. Much time and labour may be saved by collecting together the goods intended for a certain quarter of the town which are to be delivered by rail or by road. Loss is frequently avoided when the dispatch clerk is familiar with the names of the customers and when he refuses to dispatch unpaid goods before obtaining the fullest information concerning the consignees.

27.—**The Traveller.** In many concerns it is necessary that the customers should be visited personally from time to time in order that their complaints may be heard and their wishes ascertained. In some cases the principal himself undertakes this duty, but in others he employs for this purpose an assistant, who is known as the traveller. For the successful performance of this work many qualities are required, such as fluency of speech, good deportment, a sympathetic manner and the gift of discerning the tastes, views and wishes of the customers. In offering his goods the traveller must be clear and decisive in his statements, and he must record immediately in writing any orders received so as to avoid errors. He must not promise anything which his firm cannot fulfil, and he should not persuade customers to effect the purchase of quantities of which they cannot dispose. Moreover, the representative of a good firm will never run down the goods of his competitors ; by so doing he runs the risk of having a lawsuit brought against him. In his endeavours to extend the business of his firm he must not forget to be cautious, and must procure precise and reliable information concerning new customers.

The exertions of travelling call for great physical endurance as well as moral firmness and integrity of character on account of the various kinds of temptations which assail the traveller Before starting on his journey, the traveller prepares a collection of

samples which he carries with him, and fixes his route so that his firm may know in advance where he is stationed on a particular day. At certain intervals and in the case of a large turnover—even daily, the traveller sends a report of his success to his firm and encloses the orders he has taken.

In addition to taking orders, he is entitled to collect the sums due for goods sold, to grant terms of credit, to receive notice of defective goods, and to declare that such goods shall be placed at the disposal of the seller. In the exercise of his activities, he usually presents to prospective customers his card of identity which gives his name and that of the firm which he represents. As a reward for his services the traveller frequently receives a commission in addition to his fixed salary. His expenses are refunded to him in the shape of a fixed daily sum or in accordance with his own detailed statement.

Chapter V

EQUIPMENT AND PROPAGANDA

28.—**Equipment of the Business.** As soon as the preliminary requirements for the establishment of the business have been fulfilled, attention must be devoted to its equipment. Where a trader carries on an ordinary retail shop he must see that it is properly equipped both internally and externally. Public attention must be drawn to the business by the provision of signs and facias, but these must not be carried to extremes nor undertaken with bad taste. Great care must be given to the shop window and its decoration. The display of too great a variety of goods often fails to create a clear impression upon the public mind and tends to tire the onlooker. Simplicity and moderation should be aimed at and combined with good taste, which is likely to attract the public and bring customers.

29.—**The Shop and its Equipment.** The interior of the shop must be sufficiently spacious so that there is no need for overcrowding on the part of customers. The shop should not resemble a storeroom. The goods ought to be arranged methodically and should be within easy reach of the salesmen, and, as far as possible, in full view of the customers so that no time is lost in seeking them. Some branches of business, it is true, allow the shop to assume the form of a miniature exhibition, but this calls for taste and a sense of harmony. Suspicion as to prices may be created in the minds of the customers by an excessive expenditure on shop equipment. The illumination of the shop must be pleasing, plentiful and well distributed, but it must not degenerate into extravagance: too glaring a light tends to repel rather than attract. Heating and ventilation must likewise receive attention. Since customers do not take off their coats on entering the shop, the premises must not be over-heated for fear the temperature becomes oppressive; on the other hand, the temperature must not be so low as to cause the staff to suffer. The floor covering of a busy shop should be of such a description as to conceal the dirt in times of bad weather.

30.—**The Office Equipment.** In the equipment of the office the business man must take to heart the principle that it ought to be suitable and substantial. The office furniture, the mural decorations, the ceiling and the illumination should all make a

harmonious and pleasing impression. The mind acts more easily and efficiently in such surroundings than in dull and oppressive rooms. The furniture such as writing desks, filing cabinets, etc., must be arranged in a suitable manner. Time is money and for that reason the whole equipment and methods of work must be organised on that principle. In these days, shorthand and typewriting take the place of handwriting; the shorthand writer takes down the dictation of the principal and his representatives, and the typist reproduces it in clear and legible print in about a third of the time which would be occupied in writing it by hand. Even tabulated matter, invoices, statements, etc., may be done by an ingenious arrangement of the machine. In most large concerns the copying press has been displaced by the copying machine and calculations are effected by means of the calculating machine.

For correspondence, as well as for business documents, filing contrivances are used to facilitate easy reference to letters, vouchers, etc., which have been received. Every year new inventions are made in the sphere of office appliances and testify to the restless spirit of the times which endeavours to save time and make the work more accurate.

The accounts of the business should be so arranged as to supply the maximum of useful information with the minimum of effort. The choice of the books to be kept will depend to some extent upon the nature and peculiarities of the business. For small concerns a simple method of book-keeping may be sufficient; in the wholesale trade, however, a proper system of double entry book-keeping must be adopted so as to obtain a complete and clear survey of the firms' transactions. The principal, and especially the book-keeper, will be able to judge the most appropriate form to be assumed by the accounts.

31.—**The Warehouse.** In large concerns there is usually a special department in which goods are stored prior to sale. This room or warehouse should be equipped in a manner suitable to the character of the goods and the actual requirements of the business. Rooms which are too large are wasteful and still more uneconomical are rooms which are too small and in which there can never be order or control. The warehouse staff must exercise cleanliness and avoid all influences which may have an adverse effect upon the goods. No warehouse ought to be without a well arranged system of stock-books.

32.—**Propaganda.** In most large concerns a special department is devoted to propaganda, the results of which are shown by the statistical department. Hence the development of the business is no longer regarded as an accidental matter, but is a well planned affair. The trader may make his business known

to the public in a variety of ways. The chief means, however, is that of advertising, which he usually employs to a greater or smaller degree according to the peculiar nature and extent of his business. The daily papers and periodicals are most frequently used for purposes of propaganda. The advertisements which appear in the papers must be skilfully conceived if they are to have a good effect. If one has no experience in this direction it is advisable to employ an *advertising agency* which will be in a position to judge the most suitable papers for the advertisements in question.

The attention of prospective customers may also be drawn to the business by the despatch of circulars along with which price lists may be sent. It is advisable to notify the Post Office of the establishment of a new business so that any letters or other communications may be delivered without delay. Where a person wishes to avail himself of a *telegraphic address* a special notification is required by the Post Office, together with the payment of the necessary fee. Likewise, it is advisable to acquaint the railway authorities with the address of the new business.

33.—**Drafting an Advertisement.** The make-up of an advertisement will vary according to circumstances. Some advertisers use matter entirely extraneous to the goods they sell in order to attract the readers' attention. This generally takes the form of an illustration. Others will couch their advertisement in the form of an editorial or a news item, as in the case of certain pill and patent medicine advertisements. The safest plan in the ordinary course of events, however, is to indicate by prominent type or pictorially the nature of the article. In most cases terseness is preferable—the reader must not be fatigued. If the advertisement is of an educational type, the outline of the advertisement which draws the attention of the reader should be terse, but the descriptive matter may be very full providing it is interesting and written in an attractive manner. Some iteration advertisements may consist of a few words in a big white space.

If samples are to be distributed on application, a coupon should be inserted. This gives an excellent opportunity for "Keying" the advertisement, i.e. recording the numbers of replies received and so checking the advertisement value of each paper and periodical, and also for forming a card index of inquirers for circularising and "follow up" letters. In any case, an attempt should be made to key the advertisement.

The wording of the advertisement should be original and clear, but vulgarity must be eschewed. The adoption of a slogan in a series of advertisements is useful, especially if somewhat alliterative: it sometimes becomes a national saying and thus a

free advertisement, e.g. "He wont be happy till he gets it." "It wont wash clothes." "That Kruschen Feeling."

34.—**Inquiry Bureaux.** Naturally creditors always make inquiries about newly established businesses desiring to open credit accounts with them. Such inquiries are made through special inquiry bureaux. It should be the policy of the trader to assist these information bureaux with particulars concerning his own standing so that they do not have to rely upon the information of third parties, or they may be obliged to report that nothing is yet known about the new firm. The trader should not hesitate to provide inquiry bureaux of good standing with information concerning his financial status, the organisation of his business, his former position, etc., and he should also supply them with the names of persons from whom further information may be obtained by the agency. In this respect, the British trader would do well to take an example from the American business man who assists the information bureaux to the utmost extent with information concerning himself and his business undertaking; frequently, he even sends them his annual balance-sheet.

Chapter VI

OPENING A BANKING ACCOUNT

35.—**Introduction.** In our highly developed conditions of business intercourse it is no longer possible to transact all business in ready money. Moreover, a large concern could not always have in hand as much ready cash as was required for the payment of its liabilities, quite apart from the great loss which such a wasteful policy would entail. The collection and investment at interest of those amounts which are not immediately wanted, and the payment of the trader's debts from the accumulated moneys are operations which have been taken over by the banker. The advantages of a banking account to a tradesman may be briefly enumerated :—

(1) The trader's surplus cash is kept in safety.
(2) There are greater facilities for making and receiving payments than by cash, e.g. by the use of cheques.
(3) If he needs further capital to extend his business, he can obtain it more easily and cheaply from a banker than from any one else.
(4) He can increase his operations by selling his book debts to the banker in the form of bills of exchange.
(5) By using banker's credits he can obtain goods from foreign suppliers which would otherwise be impossible.

36.—**Procedure in Opening an Account.** A banker generally requires a letter of introduction before he will open an account for a stranger, who must as a rule go to the bank personally. A record is taken of his signature in the signature book if he is approved of, and full particulars are taken of his name, address, occupation, nationality, previous bankers, etc.

A paying-in slip is made out containing particulars of his first payment to his credit and the receipted copy or counterfoil is handed back to him. An example of a paying-in slip is to be found on page 26.

In the example given, coloured "copy" slips are interleaved, and the copies are made by the use of a sheet of carbon paper. This method is businesslike, as it tends to avoid errors which are always likely to occur under the system still adopted by many

banks whereby the customer has to enter the particulars separately on a counterfoil. After checking the amounts, the cashier will receipt the copy or counterfoil and return the paying-in book to the customer.

EXAMPLE OF PAYING-IN SLIP

BARCLAY'S BANK LIMITED

..............................192....

CREDIT...

....

	£	s.	d.
Currency Notes @ £1 . .			
Do. @ 10/- .			
Gold			
Silver			
Copper			
Bank Notes			
Postal Orders . . .			
Cheques			
Paid in by: £			

Customers are advised that the Bank reserves the right at its discretion to postpone payment of Cheques drawn against uncleared effects which may have been credited to the account.
Country Cheques require three and Metropolitan Cheques two clear days for collection.

If the trader has paid in cash, a cheque-book is handed to him. If he has paid in cheques, they must be cleared before he receives his cheque-book. The account is then open. The trader will withdraw his money from the bank by means of cheques. These are in such frequent use as to call for detailed consideration.

37.—**Cheques.** A cheque is a bill of exchange drawn on a banker payable on demand. In other words, it is an unconditional order in writing, addressed by a customer to his banker, signed by the customer, requiring the banker to whom it is addressed to pay on demand a sum certain in money to, or to the order of, a specified person or to bearer. The issue of a cheque purports that it is drawn against a fund which the drawer has placed in the hands of the drawee, i.e. the banker, or which the drawee has by arrangement placed at the disposal of the drawer. The mere giving of a cheque is a representation that the drawer has authority to draw it, and if he knowingly and wilfully procures goods in exchange for a cheque without having such authority he commits the offence of procuring goods by false pretences.

A person who opens an account with a banker is called a "customer." The account is opened by paying in money, cheques, bills or other equivalents of money to the credit of the customer. These become the property of the banker; for although the customer has in one sense only lent them to the banker on the understanding that the amount or any part of it is to be repaid on the order of the customer, the banker may deal with them in any way he pleases, and is not, like a trustee, liable to account for the profits he makes. This order usually takes the form of a cheque. The relation between banker and customer is, therefore, legally that of debtor and creditor, with the additional obligation that the banker must repay the debt or any part of it when called upon to do so. Should the banker wrongfully refuse to honour his customer's cheque—especially where the latter has handed the cheque to another person in payment—the customer can recover handsome damages for the breach of contract.

The chief points of note in connection with cheques are the form, date, stamp, amount and parties:—

38.—**Form.** No special form is required by law, and a cheque can be drawn on a piece of writing paper with a two-penny stamp affixed. Bankers prefer their forms to be used so that they may be more uniform. The cheque forms are *usually designed on delicately tinted paper. The fine lines* engraved upon a cheque constitute a safeguard against any attempt to alter the amount

39.—**Date.** It is usual to date a cheque, and such date should be that upon which the cheque is actually drawn or made out, but it is not illegal to "ante-date" or to "post-date" a cheque. The post-dated cheque will not be paid by the banker until the date that it is dated. Neither is a cheque invalid by

reason of its not being dated, nor because it is dated on a Sunday. Any holder may insert the date upon an undated cheque. In the United Kingdom a document is not a cheque unless drawn as payable on demand.

40.—**Stamp.** The stamp duty required by the Stamp Act is 2d., which may be either adhesive or impressed. Cheques issued by bankers in the usual cheque-book are invariably stamped with an impressed stamp, bankers only charging the customer with the cost of the stamps.

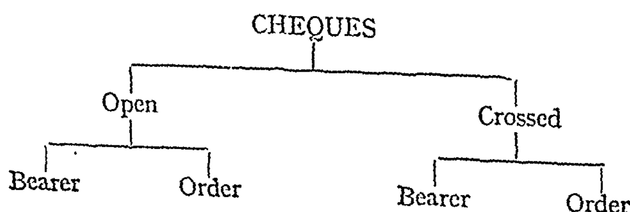
If an adhesive stamp be affixed to a cheque, it must be cancelled by the drawer writing his name or initials, or the name or initials of his firm, across it together with the date of cancellation. If the cheque is presented for payment unstamped, the banker may affix an adhesive stamp and cancel it, charging the drawer with the amount.

41.—**Amount.** The amount for which the cheque is drawn must be clearly stated in words in the body of the cheque, and in figures at the left-hand bottom corner. It is named twice to ensure certainty and to prevent fraud. The figures though convenient are not legally necessary, for all that is required is an "unconditional order in writing," but most bankers would return a cheque without the amount in figures, for completion. If the written words are omitted the banker will be justified in refusing to cash the cheque. Where the figures differ from the words, the sum denoted in words is the amount legally payable, but here again, in practice, most bankers would require confirmation of the amount before paying the cheque.

42.—**Parties.** The person who makes out the cheque is called the drawer, and the bank on whom it is drawn is called the drawee; and the person in whose favour the order is given is called the *payee* of the cheque. Again, the person signing his name on the back of the cheque is the *indorser*, whilst the person to whom it is indorsed is the *indorsee*.

43.—**Kinds of Cheques.** There are two main classes of cheques, viz.:—

(1) Bearer cheques and order cheques.
(2) Open cheques and crossed cheques.



44.—**Bearer Cheques and Order Cheques.** A bearer cheque is one made payable to a specified person or to bearer, that is any person in possession of it. Bearer cheques do not require indorsing. "Where the payee is a fictitious or non-existing person the bill or cheque may be treated as payable to bearer." Hence if the drawer makes the cheque payable to "Wages," "Rent," etc., instead of to an ordinary payee, the cheque is regarded as drawn in favour of a fictitious person, and so payable to bearer. It is true that the Bills of Exchange Act directs the payee to be indicated with sufficient certainty, but at the same time it provides that where the payee is a fictitious or non-existing person the bill may be treated as payable to bearer.

An order cheque is one made payable to a specified person or order. This is the most common kind of cheque, and must always be indorsed by the person to whom it is payable before the banker will cash it. The indorsement is the *order* or authority for another person to receive the money.

45.—**Open and Crossed Cheques.** A cheque is liable to be stolen either from the person, or from the post, or it may be lost. The fact that it is payable to order is only a slender safeguard, as the thief or the finder may forge the signature of the payee; it is very desirable therefore to prevent the cheque from being presented by a person for whom it is not intended, and paid to him. The mode adopted as a further safeguard is called "crossing." This consists of two parallel transverse lines with or without the words "& Co." or with or without the words "not negotiable" drawn across the face of the cheque. In this case the cheque is crossed generally. When a cheque bears across its face an addition of the name of a banker the cheque is said to be crossed specially to that banker. Cheques that are not crossed are referred to as "open cheques." When the cheque is crossed generally the banker on whom it is drawn must only pay it to some other banker, and when it is crossed specially the banker on whom it is drawn must only pay it to the banker with whose name it is crossed, or to his agent for collection. If the banker on whom the cheque is drawn disobeys the crossing by paying the cheque over the counter or to a wrong banker, he is liable to the true owner of the cheque for any loss he may sustain through such payment. The "true owner" is the person legally entitled to receive the money on the cheque. This person may be the drawer, the payee, or an indorsee.

The following are specimen forms of "crossings":—

(a) *General Crossings:*

& Co.

Account payee only | & Co.

Not negotiable | & Co.

(b) *Special Crossings:*

Barclay's Bank Old St., E.C.

Not negotiable | Barclay's Bank Old St., E.C.

Account payee only | Barclay's Bank Old St., E.C.

46.—**"Not Negotiable."** This addition to a crossing limits the negotiability of a cheque; it does not make it non-transferable, but warns the transferee to beware of the transferor, as the latter cannot give the former any better rights to the cheque than he himself possesses. In the ordinary course a cheque is a negotiable instrument, and a transferee who gives value for it and takes it *bona fide* and without notice of any defects in the transferor's title, obtains a good and clean title to the cheque even though the transferor had actually stolen it.

47.—**"Account Payee Only."** This phrase instructs the collecting banker to pay the amount to the payee only, and so forbids any transfer of the cheque.

48.—**Opening a Crossing.** Sometimes a cheque will be crossed in error, or forms with printed crossings may be used, and it is desired to make the cheque payable over the counter. To do this, bankers usually allow the drawer to write "Pay Cash" over the crossing; and provided this alteration is confirmed by his signature, the cheque will be treated as an open one.

49.—**Indorsements.** All "order cheques" must be indorsed before negotiation or payment. There are three kinds of indorsement, viz.:—

(*a*) *Blank.* Where the transferee merely adds his signature to the back of the cheque, so making the cheque payable to bearer;

(*b*) *Special.* Where a further payee is mentioned, e.g., " Pay A. Green or order," in which case the transferee must again indorse the cheque should he wish to transfer the cheque to another person ;

(*c*) *Restrictive.* Where the indorser makes the cheque payable to a certain person and him only, e.g. " Pay A. Green only," so preventing further transfer.

An indorser, by indorsing a cheque, gives an undertaking that the cheque will be paid in due course, and should it be dishonoured, the holder may hold the indorser liable to pay. This contingent liability may be avoided only by adding " *Sans recours* " (without recourse to me) to the indorsement.

50.—**Dishonoured Cheques.** Where a cheque is not paid by the drawer's banker, e.g. because of insufficient funds, incorrect drawing, etc., the matter must immediately be taken up with the drawer and a remittance asked for. Any previous indorsers should also be notified immediately, in order to render them liable in the event of non-payment.

SECTION II.—MANAGEMENT OF THE BUSINESS

Chapter VII

ORGANISATION OF THE OFFICE

51.—**Nature of Office Organisation.** On the whole, business undertakings may be divided into two main types, viz. :—

(1) Those in which the whole of the work consists of the receipt and transmission of information ; that is, cases in which a warehouse is not required.

(2) Those in which the chief operations centre around the warehouse, and where, for the purposes of organisation, a portion of the office work is transferred to the warehouse.

To the first category belong such businesses and professions as advertising, insurance, banking, finance, estate agency, accountancy, and such agents as do not keep a stock of goods but have their orders executed direct from the factory. In these cases the office is coextensive with the business. In the second category are included all those businesses which keep a stock of goods, so that the office work constitutes a part only of the business operations.

The office is the heart of the modern business organisation, and from it radiates that life without which the extremities would wither. Its functions embrace all aspects of the business involved —control of production, investigation of the conditions of demand and supply, surveillance of markets, sales and purchases, distribution and accounting. In particular, the functions of the office include :—

(1) The collection and transmission of all kinds of information connected with the particular business. Such information may be received from the outside world for distribution to the various departments of the undertaking, e.g. market reports, or it may be collected from within and then circulated outside the business, e.g. catalogues.

(2) The keeping of records of all the information essential for the proper management of the business.

(3) The filing of such information so that it may be available for either present or future use.

(4) The supervision and direction of the general operations of the business.

The art of office organisation consists in arranging the work to be done in a systematic manner, and then in finding those who are most competent to execute the work. Every person employed should be placed in a position suitable to his ability, so that no energy or capacity may be lost or remain undeveloped. The work which passes through the office must be separated into tasks suitable for the various sub-departments, and there must be sufficient supervision so that the operations conducted in one department link up easily with those of another, for they must not be regarded as water-tight compartments.

52.—**Office Building.** In the arrangement of the office building adequate accommodation must be provided for the different departments. Unfortunately, many offices are designed with but little care, and often seem to consist of whatever space remains after all other requirements have been met. Since office work is of a sedentary nature it is necessary that attention be paid to hygienic conditions. This is far more important in the case of the office staff than with the manual workers, who are more likely to receive the necessary exercise to keep them in good health. Moreover, office work usually involves the constant use of the eyesight. Goo[illegible] herefore necessary, and, if possible, [illegible] planned as to satisfy this requireme[illegible], where a large number of women are employed, a rest-room has been provided to accommodate members of the staff who are temporarily indisposed during office hours.

53.—**Office Furniture and Equipment.** A trader is rarely placed in a position in which he has to furnish a large office in accordance with a definite preconceived plan. As a rule, large undertakings grow out of small ones, and therefore the old office equipment continues to be used, whilst new furniture is only added as and when required. The rooms of the building, too, are seldom just as they ought to be, but have to be taken as they are. It is only when a trader is in a position to build his own place of business that he can ensure that every requirement is taken into consideration. When such is the case the old office furniture is generally disposed of in order that the new building may be fitted up with entirely new equipment.

The office furniture is considered good when it combines practical attributes with a pleasing design. All elaborate carving and ornamentation are to be avoided, since these only help to

catch the dust. The actual kind of furniture in the various departments of the office may depend to some extent upon the amount of intercourse with the public. In the case of a mail order business, for instance, the style of the equipment is of secondary importance, and the work may be conducted conveniently in several rooms if one large room is not available. Where the customers pay frequent visits to the office, however, a large room elegantly equipped is to be preferred. The space for the public is generally separated from the office by a partition. The desks are placed in parallel rows near the windows, so that in the space between two desks several employees may have room to work. The sight of a number of rows of well-filled desks creates a good impression upon the public visiting the office, the impression being heightened by the homogeneous nature of the equipment.

In most cases high desks are recommended, together with a stool for each member of the staff, so that the clerk may do his work either standing or sitting. Where the office consists of several rooms, and where therefore a harmonious equipment is not necessary, each room may be furnished in accordance with the nature of the work to be done therein.

The placing of nests of drawers on the desks or writing-tables ought to be avoided as much as possible, since the practice often leads to the habit of putting in things which subsequently may be forgotten. The fewer the number of drawers in which a clerk can place his work the better will it operate in accustoming him to promptitude and method in his work, and it will facilitate a check as to whether a particular piece of work is completed or has been arrested for the collection of further particulars or for some other reason. No clerk should be allowed to retain original documents for any length of time. Generally speaking, that which cannot be attended to within two days at the most should be returned to the manager or to an official appointed for the purpose.

54.—**Classification of Office Appliances.** Before entering into consideration of the more important appliances to be found in a modern office, it is necessary to remind the student that success cannot be forced by office furniture, typewriters, dictaphones, copying presses, adding machines, and such like appliances. More important is the prevalence of a proper commercial spirit—for which the office installation is only the means to an end—a spirit which refuses to become a slave to the machinery. Every improvement in office appliances has for its ultimate aim the facilitation of work and the saving of time, which is equivalent to the saving of money. The object of the majority of these inventions is to perform the mechanical part of the work better

and quicker by means of a machine so as to allow the business man more time to devote to the mental side of his work.

The chief appliances used in a modern office may be classified [illegible]

[illegible] been introduced for all sorts of purposes, and range from the use of carbon copies to the elaborate office printing machines.

56.—**The Carbon Copy System** may be used in connection with invoices, order notes, delivery notes, or memoranda. As required, one, two, or more hand-written or type-written copies may be made at the same time. Where an appropriate method of filing is in use, the best method of preserving copies of the outgoing letters is by means of CARBON COPIES An extra sheet of paper is placed by the typist beneath the paper on which the original letter is to be typed, and a sheet of carbon paper is inserted between the two sheets. Thus a copy of the letter is obtained at the same time as the original is typed. It is a special advantage of this system that it admits of a great variety of uses, and, in particular, it may be used in connection with the Billing System. Where the pages of the duplicating block are numbered in duplicate, it may be made to serve not only as a delivery note-book, but also by the accounts department as a book of first entry.

57.—**The Copying Press** is an old-fashioned apparatus which is no longer of importance for the modern business man. Many firms take carbon copies of their typewritten letters so that other forms of copying are rendered unnecessary. In some small offices, however, the copying press is still used, and therefore it is necessary to refer to it.

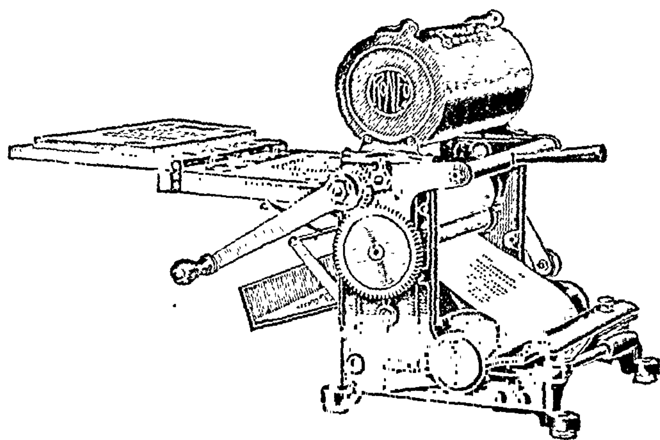
When copying a hand-written letter, an oil sheet is placed on the back of the last used leaf of the letter-book, and the leaf following, on which the letter is to be copied, is turned on to the oil sheet. A damp brush is then drawn lightly across the tissue leaf—care being taken to leave a dry space at the numbered corner and along the whole length of the inner-bound edge of the leaf—a drying sheet is placed over the wet surface, and over the drying sheet another oil sheet. The book is then closed and placed in the copying press, and the whole pressed sufficiently for the drying sheet to absorb the superfluous moisture. The book is then taken from the press, the drying sheet removed, and the letter, which must be written in copying ink, is placed face downwards on the back of the damp leaf. The whole is then pressed for a few seconds, and when the letter is removed from the book a clear facsimile copy will be found on the damp leaf. The art of copying letters and other documents by means of the copying

press is so easily acquired that the tyro may become an expert after a few hours' practice. His principal care should be to make his copying sheets just moist enough to enable his copies to be clear and clean.

58.—**The Roneo Letter Copier.** This is an automatic letter-copying machine introducing a new principle, and doing away altogether with the messy process of damping sheets, water baths, etc.

No water is used at all. A reference to the illustration below will show that the copying is done on a roll of paper which passes between the rollers of the machine. This paper is specially prepared so that when it comes into contact with the original letter a perfect copy is imprinted on it.

The letters to be copied are laid on the feed board, the



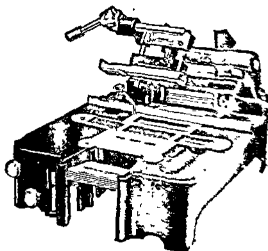
The "Roneo" Letter Copier.

handle is turned, or in the case of a power-driven machine, an electric switch is turned on, the sheet is fed automatically into the machine, and an excellent copy is taken. This is repeated at the rate of twenty to thirty per minute as often as there are letters to be copied, the machine feeding in the sheet, making a copy, and storing it on the roll. An automatic knife then comes into operation, and as many as seventy copies are cut at once. Twenty copies may be taken from one original, hand-written or type-written, and, as the whole operation is automatic, the originals are not creased or blurred.

The process has the advantage over carbon work in that the signature and any alterations are exactly reproduced in the copy, and for this reason many firms have adopted the Roneo method of letter-copying.

59.—**The Addressograph** is of great value for addressing a

large number of letters, circulars, etc., to persons whose addresses are frequently recurring. For each address a plate is engraved or set up in rubber type and inserted into a special frame. A number of these plates are placed into a drawer, and when required for use they are transferred to the Addressograph. The apparatus then prints each address on the envelope or on any other paper, so that 2000 or 3000 addresses may in this way be copied in one hour. The working expenses are small, and the machine itself is not expensive. If necessary, the Addressograph need not print all the addresses contained in the drawer, there being a special arrangement which can be set so as to skip any particular plate. All the addresses may therefore be arranged alphabetically, or, according to requirements, and only those addresses printed which are wanted for a certain communication. An illustration of this machine is here given.


The "[illegible]"

60.—**The Camera-graph** is an application of photography for the rapid preparation of copies of plans, drawings, statements of statistics, etc. A sensitised sheet of paper is placed in contact with the original document round a glass cylinder, and an exposure to a powerful electric lamp is made. The sheet is then withdrawn from the apparatus and developed either by water or [illegible] way.

61.—**Recording Appliances.** The[illegible] trivances by which words or figures are [illegible] with business transactions, such as ty[illegible]

62.—**The Typewriter** has becom[illegible] that most small undertakings find [illegible] whilst in large offices it is an indis[illegible] only is the writing more legible th[illegible] can be executed at a much greate[illegible]

There is a certain America[illegible] ticular letter automatically, its [illegible] of an automatic piano. Since [illegible] in the stereotyped form of l[illegible]

The greatest prospects [illegible]

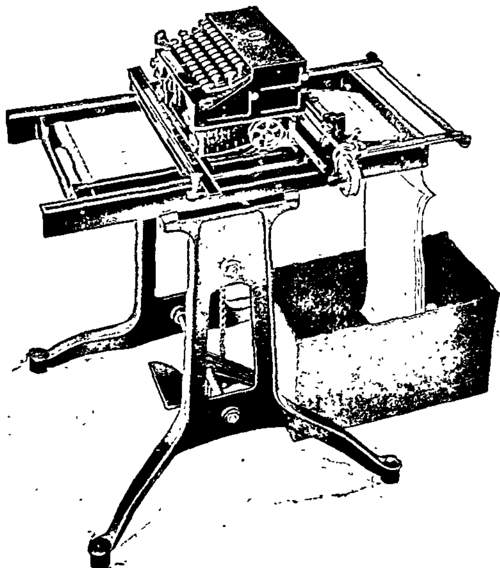
the Billing System. The Elliott-Fisher Billing machine is a typewriter, which, in addition to typing the invoice automatically, is capable of executing almost all forms of office work. In this system the acknowledgment of an order, the order book, the warehouse book, the instructions to the packing department, and even the invoice may be made out by a single process of writing.

As each invoice is entered into the day book at the time at which it is made out, the complete identity of the invoice and entry is assured, and therefore no such mistake occurs as forgetting to make the entry. Another application of the Billing System enables the monthly statements to be made out. The amounts from the day book or any other book can be transferred to the customer's account in the ledger. A second leaf is attached to the ledger on which a copy is transferred at the same time as the original entry is made. At the end of each month it is only necessary to add up the account and the statement is ready. The original loose leaf goes to the customer, whereas the copy is used for book-keeping purposes. The usefulness of the Billing System is increased by combining the typewriter with the adding machine. The adding machine will total not only vertical but also horizontal rows of figures. For invoicing there is no better mechanical device, and since the Billing machine is fitted with very wide carriages, a large size of paper may be employed. Moreover, special attachments may be fitted for various purposes, which in cases where a large number of items are involved, reduces the work by as much as from 20 to 30 per cent.

The Elliott-Fisher writing machines are made in three styles for various purposes: Writing machines for cut forms, automatic feed machines for continuous forms, and book-recording machines for bound books. The illustration on page 39 shows the automatic feed machine. It handles continuous lengths of roll or super-fold forms; it can be applied to any invoicing or order-writing system, bills of lading, purchase orders, freight bills, bank collection letters, etc. This machine is equipped for writing from one to ten copies at one operation. The forms are in continuous lengths, and feed through the machine automatically with carbon paper between. All the operator has to do is to write and tear off the forms. This machine eliminates the wasted time ordinarily consumed in adjusting carbon paper between sheets and inserting the "loaded sheets" into the machine.

63.—**Time Records.** In a manufacturing business accurate records must be kept of the amount of time worked by each wage-earner, and also of the different duties any one man may undertake in the course of a day's work. This is needful not only in order to prevent overpayments, but so that the manage-

ment may have details available to indicate how much has been expended on labour in the case of any particular piece of work. To assist in this type of work a number of ingenious automatic recorders have been introduced. One particular machine—the

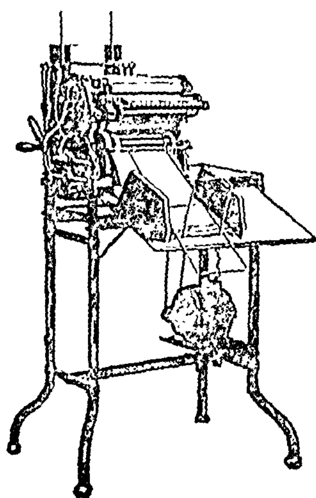


Elliott-Fisher Automatic Feed Machine.
(For writing continuous length forms.)

Dey Time Register—produces at the week-end a full and complete wage sheet, totalling the hours worked by each hand. No machine, however, can follow a given worker and record the different things he may do during the day, though the **Calculagraph**, a time-stamping machine, is so arranged that the men

themselves can cause the machine to record when they start a given piece of work and when they leave it.

64.—**The Gammeter Multigraph** is a complete office printer. It is electrically driven and automatically fed, and can be operated by a member of the staff. The Gammeter Multigraph prints office stationery, such as letter headings, invoices, and envelopes; also factory forms, cards, and tags of all kinds, price lists, enclosures, booklets, labels—in fact a wide range of printing up to sheets nine by sixteen inches—and turns them out as stylishly as the most expensive printer, far more promptly, and at an average saving of 50 per cent. Although the arrangement of the type and its subsequent redistribution takes longer than cutting a stencil, the machine is very useful where an unlimited number of perfect copies is desired. Hence the importance of this process where extensive circularising is necessary.



The "Gammeter" Multigraph.

65.—**Calculating Appliances** are met with in every office, and include such labour-saving devices as books of tables, which are in effect ready reckoners, slide rules, and a great variety of calculating machines.

In connection with practical business the vast majority of calculations are merely questions of arithmetic. In some undertakings, however, as in the case of life assurance offices, a large amount of higher mathematics is involved, but the vast number of business concerns want nothing more than the extensions of invoices and additions or subtractions of items of figures in order to arrive at totals. For the accomplishment of this kind of work a variety of calculating machines has been introduced within recent years. In choosing such a machine it should be remembered that the chief conditions which make for service are:—

(1) *Reliability.*—The machine must not be defective in its construction, but must be absolutely certain in its results.

(2) *Rapidity.*—The machine should be able to execute the work in a much shorter time than would be occupied by a clerk's mental calculation.

(3) *Simplicity.*—The machine should be easy to operate.

(4) *Silence.*—The machine should not interrupt the work of an office, that is, it should be noiseless.

Broadly speaking, calculating machines may be grouped under

two headings according to the manner in which they are operated :—

(1) Those which are operated by shifting pointers up and down a slot or several slots and then reading off the answer that appears in the mechanism as a result of the movements which have been made.

(2) Those machines which are operated by keys similar to a typewriter.

Another way of classifying these machines is that in one class a result is worked up very much in the same way as a gas meter, that is to say, the result shows itself upon figures engraved upon revolving wheels and has to be read off. The other type of machine prints the totals. In the trade these two types are known as non-listing and listing machines, both of which operate in either of the two ways mentioned above.

As illustrations of these, mention may be made of the Comptometer and Burroughs' Adding Machine.

66.—**The Comptometer** is certainly one of the best non-listing machines in use for ordinary purposes. It is operated by keys somewhat similar to a typewriter, and therefore calls for a certain amount of skill. The machine can be easily learnt by any one who is capable of working a typewriter, and for all practical purposes it may be worked by blind people.

The Comptometer readily lends itself to the making of additions, and it is equally capable of doing all the ordinary four rules of arithmetic. Given a suitable keyboard it can perform compound as well as simple arithmetic, and can calculate in £ *s. d.* or in any other monetary system.

67.—**The Burroughs' Adding Machines** are on the lines of the Comptometer, but have in addition a printing attachment. Nearly a hundred different models are made, in different sizes, with six, seven, and even seventeen columns of keys. Printing carriages are made to accommodate paper of different widths, up to twenty inches.

If desired, the machine can be electrically driven and arranged for totalling in £ *s. d.*, decimals, feet and inches, tons, cwts., qrs., lbs. It is useful not merely for writing down and adding columns of figures, but it ensures also a saving in checking ledger postings, preparing monthly statements, making out wages sheets, etc.

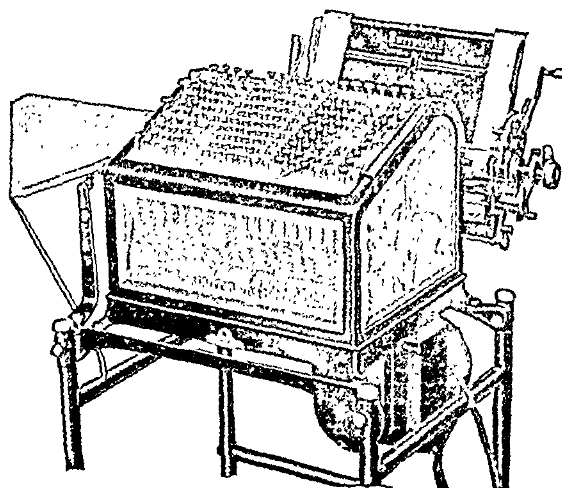
Most banks now balance their daily cash takings by the use of these machines. A fairly skilful operator can add up a hundred vouchers and give the correct total in about five minutes

The Burroughs' Adding Machine, shown on page 42, is designed especially for commercial or bank-ledger posting and for making out customers' statements, which it does simultaneously. Briefly,

for space does not permit of any extended description as to exactly how this machine functions, the result is to show clearly and automatically the balance outstanding, either debit or credit, if any, after an item has been posted to an account. Should there be no outstanding balance, the machine just as automatically shows this.

Generally, the machine makes ledger-posting 90 per cent. automatic, as the dates, ciphers, punctuation, etc., print independently of the operator, which increases the output very considerably. Ledgers posted with one of these book-keeping machines are automatically in balance, and " calling back " after posting is rendered unnecessary.

68.—**Appliances for the Transmission of Intelligence.** These consist of machines designed for the transmission of information from one place to another, such as telephones, speaking tubes, automatic messengers, and the dictaphone.



Burroughs' Adding Machine.

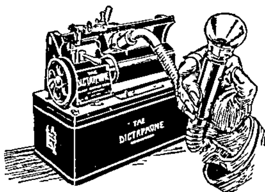
69.—**The Telephone** was invented in 1877 and is now to be met with in every office of any size. By its means a business man is enabled to hold communication with any department of his business, and without leaving his desk he can maintain a conversation with customers residing in any part of the country, and even with those on the Continent. In large offices, telephones are installed in each department, and direct communication from any department to the Exchange may be effected through the medium of a switchboard located in the telephone department. A note should be made of all telephonic messages, which should be delivered as soon as possible after receipt. If the person concerned should happen to be out, it is a good plan to write out the message and leave it on his desk where he will see it on his return. In order to avoid misunderstandings any important arrangement effected by telephone should be confirmed at once in writing.

70.—**The Speaking Tube** is an arrangement facilitating communication between the various rooms of an office, and thus

obviating the need for a messenger, and is often found in use where no internal telephonic communication exists.

71.—**The Automatic Messenger** is a means by which documents and other light articles may be carried rapidly from one place to another. It takes the form of a pneumatic tube, but in some departmental stores there is also a mechanical system of transmitting cash from the counter to the cashier. This system may be extended so that articles, such as books, may be conveyed along rails, as is sometimes met with in newspaper offices. The disadvantage of the pneumatic tube is its inability to transmit large objects, so that the system of rails has to be adopted. This is known as the Funicular System, in which the article is propelled by means of a wire. Large or small articles may be transmitted between rooms which are connected by a Funicular System. The carriages are continually in motion from station to station, and may take up at any given point any objects which that particular station desires to send to another room; moreover, the articles are delivered automatically at the proper delivery stations. This system gives rise to a fair amount of noise, but otherwise it is excellent.

72.—**The Dictaphone** is an application of the phonograph, since it records the sounds made by a human voice and afterwards reproduces them. In the conduct of the office correspondence, the dictaphone is a very valuable device. The dictator of the correspondence speaks into a tube which fixes the words on to a cylinder by means of a membrane, and there are contrivances which render it possible to stop dictating at any moment. The machine will also repeat the conversation in the event of the user wishing to have the dictation repeated. There is an arrangement, too, by means of which corrections may be made in the dictation. In the transcribing machine there is a repeater in the place of the speaking tube, and when the dictated matter is repeated it should be so clearly heard through the ear-phones that copying from it is easier than copying from shorthand notes. The words spoken into the receiving machine may be repeated as often as necessary. However, practice shows that the use of the dictaphone is not always possible, since a good dictation is essential in order to



The Dictaphone.

make the record fit for use. Continuous and uniform speech is more difficult of acquirement than is generally believed, and there are also difficulties in taking off the dictation from the receiver. Moreover, the machine is unable to correct anything which is misinterpreted, and it is unsuitable for use in communications which abound in technical terms or foreign expressions.

The chief advantages of the dictaphone are to be found in the fact that the apparatus can be used after closing time, and that it saves the work of the shorthand writer. Persons accustomed to the machine and who know each other's ways may save as much as 40 per cent. in time and labour by its use. The working expenses of a dictaphone are not large, and with economy they do not exceed the expenditure on writing material. A notable feature is that the records can be reused.

73.—**Filing Appliances.** There are several modern systems of filing letters and documents which may be grouped under two main headings according to the principles on which they are based, viz. :—

(1) The Flat Filing System.
(2) The Vertical Filing System.

74.—**The Flat Filing System.** Under the Flat Filing System all incoming letters and documents are placed away flat in a file which usually holds about three hundred letters arranged alphabetically according to the name of the sender. The back of this file is fitted with a mechanical arrangement to keep the correspondence in place. There are numerous makes of these files, which have more or less the same advantages since they are all based on the same principle, and are distinguished from each other merely by the mechanical arrangement for holding papers in their place. The best-known flat files are the SHANNON and the PILOT, which may be taken as typical of the whole system. The letters of a firm are placed on the top of one another in such a manner that the letter last received is on the top. In cases where the outgoing documents are not copied into a bound book but copied on loose leaves, the latter are likewise put away into a file in such a manner that the incoming letter and the reply to it are placed next to each other.

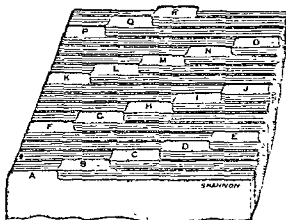
In accordance with the extent of the correspondence, a larger or smaller number of files has to be used simultaneously. Even the smallest business firm must have at least two files, each embracing half the alphabet. The greater the number of letters received daily, the fewer the letters of the alphabet that can be ranged in the same file; and we thus come to the point when a separate file must be used for each letter of the alphabet or even more than one file for the same letter. If all the incoming letters

were placed into one single file in a large firm this would be filled in a few days, and the correspondence with a certain firm would for that reason be split up into too many files, thus making the reference to it much more difficult.

75.—**The Vertical Filing System.** This is now the recognised system for caring for all papers in a modern business office. The simplicity and economy of its operation and the speed with which any letter, invoice, order, or document may be produced, have been demonstrated to such an extent that most up-to-date concerns have introduced this system of filing.

The chief methods of filing under this system are:—

(1) Direct ALPHABETIC filing; by name as if arranged for a city directory. This is the most direct method of finding and filing correspondence, and is recommended for small users.



Direct Alphabetical Filing.

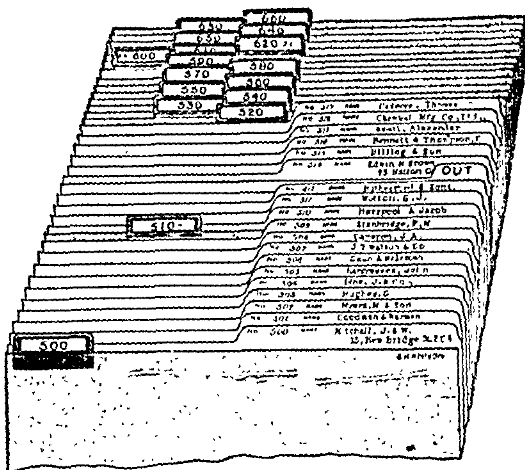
Experience has shown that for speed and accuracy this system cannot be beaten, while it is adaptable to almost any kind of correspondence. Individual folders are allotted to each main correspondent, and are filed between plain alphabetical guides, as shown in the illustration. A miscellaneous folder can be used for odd letters and placed immediately behind each guide.

(2) NUMERIC filing; i.e. by assigning arbitrary numbers to each firm or subject. This method ensures the greatest accuracy and is a virtual necessity where the subject-matter requires much cross reference.

I [illegible] given a separate file [illegible] drawer is kept for [illegible] in the drawers in numerical order, a guide being allotted to every ten or so to facilitate reference. The filing clerks readily get to know each customer by his number, but for ready reference a record of all file numbers is kept in an alphabetical card index. A glance at the illustration on page 46 will suffice to explain it—so simple is the working.

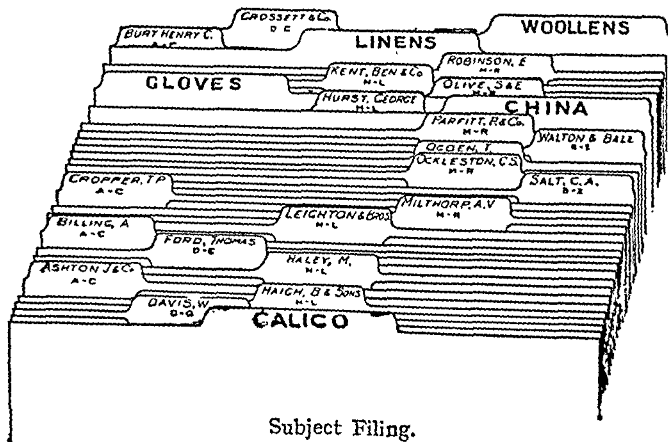
(3) GEOGRAPHIC filing; i.e. according to the names of the towns or districts. This method is suitable where territorial grouping is of chief importance.

(4) Subject filing. This can be adapted to any trade or business, and is suitable where the subject is of more importance than the writer, as, for example, letters



Direct Number System.

relating to property acquired, where the writers drop out of the correspondence within a short time. This method is shown in the accompanying illustration.



Subject Filing.

The Vertical Filing System is based on the principle of having a separate folder for each customer or subject. The manner in which the folders are arranged in the file is immaterial. Solicitors, for instance, collect together in the same folder all the documents referring to a particular case.

Since a separate folder is used for each correspondent, both

the inward letters and the carbon copies of outward letters to each firm are placed in their respective folders in the order of date.

In some large firms and Government departments a double sheet of foolscap-size cartridge paper or linen-faced paper is used instead of a folder, and the papers are arranged and kept in their proper position by means of a short tag which is inserted through a hole in the top left-hand corner of the cover and the papers.

It must be left to each individual undertaking to decide whether the alphabetical, numerical, or geographical method of filing is the best. Mail-order businesses, possessing a large number of customers but very few permanent ones, find it to their advantage to arrange their correspondence according to the names of the towns or localities where the customers reside, i.e. geographically, instead of arranging them directly under the customers' names.

In the Vertical Filing System the equipment consists of alphabetic guides with their tabs or projections at the left. Next in order are the wide tab folders for individual names of active correspondents, and lastly are the tab folders at the extreme right of the drawer for miscellaneous or infrequent correspondence. The individual folders, one for each concern or subject, with name and address, or subject, etc., typewritten direct or upon a gummed slip pasted to the tab, are arranged behind the proper guides in exact alphabetical order. Thus the folders behind the B guide card will be those of firms whose names begin with B, whilst on the projecting tabs will be written the name of each firm for whom a folder has been prepared.

The drawers of files under this system are kept in a cabinet, so that they practically represent a library, and the contents of each drawer is plainly marked on the front thereof.

76.—**The Bizada.**—When the card index was introduced to the commercial world, it opened up wide possibilities of improvement in office methods, and it is now accepted as being practically indispensable, in some form or other, to every successful and well-equipped organisation.

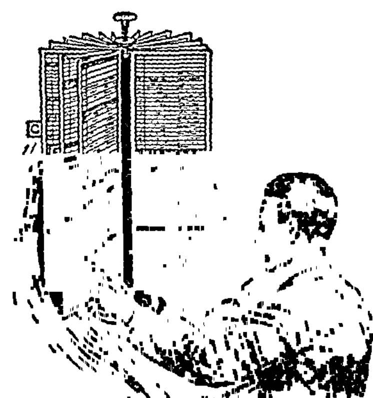
Nevertheless the card index has two pronounced disadvantages. The first of these is that only one card can be seen at a time, which means that it is often the work of several minutes to find a name, even if it is in its proper order. The second disadvantage is that it is easy for a card to be misplaced, with the consequent loss or duplication of records.

The Bizada has been produced to overcome both of these difficulties.

It is a card index with many cards visible at the same time. Reference can be made in considerably less time than with the ordinary form of card holder or cabinet Additional entries can

be made without removing the cards from the holder, thus eliminating the risk of misfiling or loss. The Bizada indexes cards of two types:—

(*a*) **Board Strips,** for recording information of a fairly permanent nature which can be accommodated on one or two lines of typewriting; and

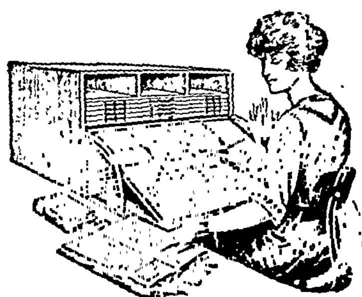


The "Bizada" Revolving Card Index.

(*b*) **Overlapping Cards** for use where more space is necessary than is available on the board strips, and where the card may be required to be written up from time to time.

The Bizada consists of a stand upon which are hooked metal frames which are fitted with grooves into which the edge of the cards are inserted. Marginal tabs may be attached to the frames if desired. An illustration of the upright revolving pattern is shown here.

For purposes where it is desirable to keep the records under lock and key, steel cabinets have been produced. The cabinet here shown has been specially designed for the use of Bizada cards for ledger, stock, and other records which it may be desirable to lock up. From three hundred to four hundred cards are brought to view at the opening of a drawer, and entries can be made instantly on either side of the cards without removing them.



The "Bizada" Cabinet.

Chapter VIII

BUSINESS CORRESPONDENCE

77.—**The Trader and his Correspondence.** The trader endeavours to procure his goods in the most advantageous manner possible—generally at the source of production. He directs the goods to the place in which there is a demand for them—thus satisfying the needs of the consumer. For his services he makes a pecuniary charge which constitutes his profit.

Good buying is not the most difficult task of the trader; to create a circle of customers, and then to maintain and develop it—that is the most arduous work in which he is engaged. The consumer is the object of incessant strife; every competitor endeavours to attract him by conspicuous advertisements and by the offer of advantages in the price and in the quality of the goods. Again, the trader has to be prepared to encounter fluctuations in prices which may upset his calculations, these fluctuations may depend upon the state of the weather, strikes, tariff wars, political or financial crises, and the innumerable influences which may interfere at any moment with the natural operation of supply and demand.

With the object of acquiring, maintaining, and extending his clientele, the trader utilises his personal relationships—the visits of his travellers and other representatives, and the medium of correspondence.

Commercial correspondence has still a further object. It is generally through this means that the transactions of the market-place are ultimately fixed, for if the arrangements have been made orally they are usually confirmed by letter because, in the event of subsequent litigation, the letters serve as legal evidence. Moreover, along with the documents the correspondence forms a basis for the system of accounts.

78.—**Style in Business Correspondence.** There is nothing peculiar in the style of business correspondence. It should be founded on good English, and use made of the ordinary forms. Its essential qualities are: lucidity, precision, and especially brevity. "Brevity is the soul of wit" (*Hamlet*, II.). However, brevity should not affect the clearness or the elegancy of the style.

For the sake of lucidity, it is important in writing a letter to follow a definite arrangement which should include the following parts :—

(1) *The Heading, including the Date.*—This includes both the name of the place from which the letter is written and the date of writing: thus—

28 QUEEN STREET,
CARDIFF,
22nd Jan. 1925.

As a rule it is advisable to use as few lines as possible without making the heading look crowded and awkward. In some cases the heading contains a brief statement or statements explanatory of the purpose, standing, and claims of the firm making use of it. The telephone number, telegraphic address, and codes used, if any, are, as a rule, stated on such forms.

(2) *Inside Address.*—When complete this contains the name, title, and place of residence of the person to whom the letter is sent.

(3) *Salutation.*—The form of salutation must be determined by the relationship between the writer and the person addressed. In business correspondence the usual form is "Dear Sir" to an individual and "Dear Sirs" or "Gentlemen" between firms.

(4) *The Body of the Letter.*—This is the actual communication; it follows the salutation and begins on the line immediately below, and frequently consists of three paragraphs, viz. :—

(*a*) The introductory paragraph.

(*b*) The body of the letter proper. If necessary, this should begin by answering the questions asked by our correspondent in the order adopted by him in his letter, and there should follow that which we have to say ourselves.

(*c*) The concluding paragraph.

(5) *Complimentary Close.*—This follows the body of the letter and immediately precedes the signature. It is the "I am, Sir, Yours truly," "Yours respectfully," "Yours faithfully," etc., with which leave is taken of correspondents. The complimentary close should correspond with the salutation, and, like the salutation, must depend on relationship between the two parties to a letter.

(6) *Subscription or Signature.*—This should follow the complimentary close on the next line and should end at or near the right-hand edge of the sheet.

"Modern Business Methods"

DIAGRAM SHOWING THE ARRANGEMENT OF A BUSINESS LETTER

(1) *Heading and Date.*

(2) *Inside Address.*

(3) *Salutation*

(4) *Body of the Letter.*

(a) *Introductory Paragraph*

(b) *Body of the letter proper.*

(c) *Concluding paragraph.*

(5) *Complimentary Close.*

(6) *Subscription or Signature*

The arrangement of these various parts of a letter are shown in the diagram on page 51. Continuous practice and the conscientious imitation of good models will rapidly assist the student to acquire a good commercial style.

79.—**Correspondence in Connection with the Purchase of Goods.** We shall now give four parallel transactions which deal with the following types of letters, together with the documents belonging thereto:—

(1) Inquiries.
(2) Offers.
(3) Orders.
(4) Execution of orders.
(5) Debit and credit notes.
(6) Statements.
(7) Payment of accounts.
(8) Acknowledgments of receipt of payments.

Of course every business transaction does not begin with an inquiry; it may open with an offer of goods, or if the purchaser already knows the seller's price, he may give an order without any preliminary inquiry. In the following transactions, however, we shall begin with the inquiry and trace the transaction through its various stages until it is concluded.

The student should first read through each business transaction in order to understand the connection, and then study the various letters of the same type, comparing them with one another and noting the various ways in which they may be expressed.

80.—**Inquiries.** The function of an inquiry is to ascertain where one can procure the best quality of goods at the lowest price, or, in other words, to find the best market. The inquiry may be of a general nature such as a simple request for a price list, or it may be of a more particular nature embodying the precise description of the goods required and a stipulation of the probable magnitude of the prospective order; the latter information would be provided with the idea of inducing the lowest possible quotation. In the case of goods which have to be manufactured to order, the precise details are necessary and even indispensable. Frequently a sample or pattern is submitted along with the inquiry.

"Modern Business Methods"

No. 1

Telegrams: "Jocom, Manchester"

MEMORANDUM

Telephone No 1265 Post Office.

From
JONES & COMPANY,
Wholesale Ironmongers,
27 Mosley Street,
MANCHESTER.

To The Durable Typewriter Co., Ltd.,
Southwark Street,
LONDON, S.E. 1.

21st August 19....

Dear Sirs,

We shall be obliged if you will forward us a catalogue descriptive of your "Durable" Typewriter, and inform us of the largest discount you allow for prompt cash.

Yours faithfully,
JONES & CO.

No. 2

BROWN & CO.,
Electrical Accessory Dealers
Telephone: No. 891 Post Office.
Telegraphic Address: "ELECTRO, MANCHESTER."

Grafton Street,
MANCHESTER,
20th Aug. 19....

THE ELECTRICAL SUPPLY CO., LTD.,
Brixton Place,
LONDON, S.E. 9

Gentlemen,

Will you kindly send us your wholesale catalogue, quoting us your lowest prices. As there is a great demand for your class of goods in this district, we shall be able to place large orders with you, providing your terms are satisfactory.

We are, Gentlemen,
Yours faithfully,
BROWN & CO.

No. 3

POST CARD

Telegrams: "DRUGS. BOURNEMOUTH." *From* GREENFIELD & SONS, *Wholesale Druggists,* 81 MARINE PARADE, BOURNEMOUTH.	Nat. Tel.: No. 981 Bournemouth 10*th Sept.* 19.... *To* THE EXCELSIOR MANUFACTURING CO., HOLBORN VIADUCT, LONDON, E.C. 1.

GENTLEMEN,

We have an inquiry for 100 5-lb. tins of "Germolene." Please quote us your lowest price for these goods, and oblige,

Yours faithfully,

per pro GREENFIELD & SONS,

J. WINTER

No. 4

33 PALMERSTONE ROAD,
SOUTHSEA,
12*th Sept.* 19....

MESSRS. SMITH & CO.,
115 CORNHILL,
LONDON, E.C. 2.

GENTLEMEN,

Will you kindly let us know your best trade terms for a brand of Cocoa as good as per sample sent under separate cover. We shall require the Cocoa to be in 4½d. and 6d. packets, also in ¼-lb., ½-lb., and 1-lb. tins for orders of 20 doz. each. Provided your prices are satisfactory we shall be able to give you an order for about 100 doz. per month.

Trusting to receive an early reply.

We are,

Yours faithfully,

W. WATSON & SON.

81.—**Offers.** In making an offer of goods the following points should be noted. When answering general inquiries it is necessary—

(1) To acknowledge the receipt of the inquiry and to state that price lists, catalogues, etc., are being sent.

(2) *To draw attention to the prices contained therein.*

(3) To recapitulate the discounts and allowances which will be granted.

(4) To request an order.

Any particular advantages possessed by the goods may also be pointed out or attention may be drawn to specialities which can be well recommended. In the case of all quotations following upon the receipt of a particular inquiry, the price should be quoted according to the size of the prospective order. A brief and clear statement should also be made of the terms of delivery and conditions of payment. Where samples or patterns are forwarded with the quotation, this fact should be mentioned in the letter.

82.—**Terms and Conditions of Payment.** No obligation is entailed on making an inquiry, but if the seller makes a definite offer he is obliged to deliver the goods if the buyer accepts the offer within a reasonable time. Where the trader desires to evade this obligation to deliver, he must add a qualifying phrase to the offer such as, "subject to confirmation," or "subject to being unsold." Where the goods are offered "subject to confirmation," the offer is only binding if the order is given immediately or if the offer is confirmed on acceptance. A telegraphic reply may be made a condition in an offer, such as "subject to receiving a wire by return."

The goods may also be offered "firm," in which case the offer cannot be withdrawn by the seller. In such firm offers, the time-limit within which it remains valid will be stipulated; e.g. "we offer you firm subject to reply by noon Monday."

Goods in stock may be dispatched immediately, and it is the duty of the purchaser to stipulate the time for delivery which he desires; in the case of goods, however, which have to be manufactured or which are not yet in stock, the seller must know when he can deliver before he commits himself to a time for delivery.

It must also be decided whether packing is included in the purchase price or whether an extra charge will be made for it. Where the terms and conditions of payment have not been established by previous dealings they must be mentioned in the offer or when the offer is given.

No. 1

Code: A B C (5th Edition).
DURABLE TYPEWRITER CO., LTD.,
Typewriter Makers to H.M. the King.

Telegraphic Address: "DURABLE, LONDON."
Telephone: No. 7231 City.

Governing Director: W. J. SMITH.

In your reply please quote reference No.

S	C	270

Dic. W. J. H.   *Typed* E. H. S.

Head Office:
"Durable" Buildings,
Southwark Street,
LONDON, S.E. 1,
22*nd August* 19....

Factory:
Queen Street,
SOUTHWARK, S.E.

MESSRS. JONES & CO.,
27 MOSLEY STREET,
MANCHESTER.

DEAR SIRS,

We are much obliged for your esteemed inquiry of the 21st inst., and have much pleasure in enclosing herewith our illustrated descriptive catalogue of the latest No. 14 Model "Durable" Visible Writing Typewriter. Our terms are 5% discount within 7 days or 30 days net.

By this post we are also advising our Manchester Branch, 76 Grey Street, of this matter, at the same time asking them to allow one of their representatives to call upon you in order to submit fullest particulars of the "Durable" machine.

To enable you to consider fully the advantages of our machine, we are willing to let you have one for seven days' free trial.

Assuring you of our best attention at all times.

We are,
Yours faithfully,
For THE "DURABLE" TYPEWRITER CO., LTD.,
W. HUGHES, *Manager.*

No. 2

BRIXTON PLACE,
LONDON, S.E. 9,
21*st August* 19....

MESSRS BROWN & CO.,
GRAFTON STREET,
MANCHESTER.

GENTLEMEN,

We are in receipt of your favour of the 20th inst., and are sending you by this post our wholesale catalogue of electrical appliances, as requested.

"Modern Business Methods"

In this catalogue you will find our lowest prices and conditions of sale, from which you will see that we allow 2½% discount for cash within a month from the date of invoice, and a further 5% for orders over £100, carriage paid to any station in Great Britain.

We are convinced that our competitors can give you no better terms than these, and therefore we look forward to your esteemed orders, to which we shall devote our best attention.

We are, Gentlemen,

Yours faithfully,

per pro THE ELECTRICAL SUPPLY CO., LTD.,

J. SMITH, *Manager.*

No. 3

THE EXCELSIOR MANUFACTURING CO.

New York, Berlin, Paris, Vienna

Telegraphic Address: "GERMOLENE, LONDON."
Telephone: POST OFFICE CENTRAL 872.

NOTICE!
The word "GERMOLENE" is registered as our Trade Mark.

42 HOLBORN VIADUCT,
LONDON, E.C. 1,
11th September 19...

MESSRS. GREENFIELD & SONS,
81 MARINE PARADE,
BOURNEMOUTH.

DEAR SIRS,

We thank you for your inquiry of yesterday, and can offer you 5-lb. tins of "Germolene" at 30/- per doz. tins, less 10% discount for cash, if you take at least 10 doz. tins.

No charge is made for packing or cases, but we do not pay carriage.

In the hope that we shall be favoured with your orders,

We are,

Yours faithfully,

per pro THE EXCELSIOR MANUFACTURING CO.

CHAS. HALL, *Secretary.*

No. 4

THE COCOA WORKS,
115 CORNHILL,
LONDON, E.C. 2,
13th September 19....

MESSRS. WATSON & SON,
33 PALMERSTONE ROAD,
SOUTHSEA.

GENTLEMEN,

In reply to your esteemed inquiry of the 12th inst., we have much pleasure in quoting you for our "Electra" Brand of Cocoa, which certainly comes up to your sample:—

4½d. packets	@ 3/9	per doz.		
6d. "	@ 4/6	"	"	
¼-lb. tins	@ 7/-	"	"	
½-lb. "	@ 14/-	"	"	
1-lb. "	@ 27/6	"	"	

For orders of 20 doz. and upwards of each sort we grant a special stocking discount of 5%. Terms: Cash one month, carriage paid. A charge is made for packing on the invoice, but this is allowed for if returned within ten days.

Under separate cover we are forwarding you a sample packet of our "Electra" Cocoa, which will enable you to judge its high qualities.

Trusting to receive your orders.

We are, Gentlemen,
Yours faithfully,
SMITH & CO.

83.—**Orders.** Orders given orally, by telegram or by telephone, should be confirmed by letter. The letter accompanying an order should mention briefly:—

(1) The receipt of the offer or the confirmation of the verbal, telegraphic, or telephonic agreement, if any such has been made.

(2) A repetition of important conditions as to price, delivery, or terms of payment.

(3) Reference to enclosed order form, occasionally repeating its contents.

(4) Request for careful execution of the order.

The order forms, like other documents, differ considerably according to the nature of the business and the kind of goods sold. To avoid misunderstandings they ought to contain :—

(1) An exact description of the goods—their quality and quantity.
(2) The price and the conditions of payment and delivery.
(3) Packing and forwarding instructions.

In a busy concern some of these points are regarded as matters of course, and for that reason they receive no mention. How far this is admissible must be decided in each individual case. Orders in the form " as usual " or " the same as last time," etc., are very annoying to the receiver since he is obliged to wade through former correspondence in order to find out its meaning. Some firms are prepared to meet their customers in this respect, and therefore print upon their invoices such remarks as " Kindly quote reference number for repeat orders." It is preferable, however, to add to each new order a precise description of the goods required; many firms even print in their conditions of sale a passage to the following effect : " It is advisable to specify the goods required and not to order ' Same as last supplied.' "

No. 1

Letter enclosing Order

27 Mosley Street,
Manchester,
29th August 19....

The "Durable" Typewriter Co, Ltd.,
Southwark Street,
London, S E. 1.

Dear Sirs,

Your letter of the 22nd inst. came duly to hand, and we beg to say that we have since received a visit from your Manchester representative.

We have carefully tested the machine you lent us on trial, and have now pleasure in sending the enclosed order for one exactly like it.

Yours faithfully,

JONES & CO.

One Enclosure.

No. 1

Order No. 47

Telegrams:
"JOCOM, MANCHESTER."
Telephone:
1265 Post Office.

29th August 19....

From
JONES & CO.,
27 MOSLEY STREET,
MANCHESTER.

To THE "DURABLE" TYPEWRITER CO., LTD.,
SOUTHWARK STREET,
LONDON, S.E. 1.

Please supply as under, in strict conformity with the particulars given, any deviation from which will be at your own risk, unless referred to and authorised by us.

One number 14 Model "Durable" Typewriter, fitted with 10″ Carriage, complete with accessories @ £24.

R. BROWN,
Manager.

All Invoices must bear this Order Number.

No. 2

LETTER ACCOMPANYING ORDER

GRAFTON STREET,
MANCHESTER,
24th August 19....

THE ELECTRICAL SUPPLY CO., LTD.,
BRIXTON PLACE,
LONDON, S.E. 9.

DEAR SIRS,

Please accept our thanks for your favour of the 21st inst., together with the wholesale catalogue which arrived by the same post.

Enclosed we are sending you order No. 2901, and beg you to execute it in accordance with the instructions contained therein.

As this is a trial order, we trust you will devote your best care to its execution; if the goods give us satisfaction, we shall be in a position to place larger orders with you.

Yours faithfully,
BROWN & CO.

Enclosure.

"Modern Business Methods"

No. 2

ORDER

Telegraphic Address.
"ELECTRO, MANCHESTER."
Telephone.
Post Office 891.
Order No.
2901.

BROWN & CO.,
GRAFTON STREET,
MANCHESTER,
24th August 19..

THE ELECTRICAL SUPPLY CO, LTD.

Please Supply:

2 doz. No. 527	Electric Carriage Clocks	63/- each.	
½ doz. No 527	Spare Batteries	@ 2/6	"
½ doz. No. 527	Spare Bulbs	@ 2/6	"
2 doz. No 8621	Pocket Lamps	@ 4/6	"
1 doz. No. 8621	Refills	@ 1/-	"
2 doz. No. 98	Electric Ceiling Clocks	@ 27/6	"
1 doz. No. 98	Refill Batteries	@ 1/6	"
½ doz. No. 98	Spare Bulbs	@ 2/6	"

Per L.M.S. Railway Goods Train.

TERMS: 2½% discount one month from date of invoice. Extra 5% for orders over £100.

Please Note:

All goods must be sent carriage paid
A separate invoice *in duplicate* required for each order
Order number must be quoted on invoice

BROWN & CO.

No. 3

Letter accompanying Order

81 MARINE PARADE,
BOURNEMOUTH,
11th Sept 19..

THE EXCELSIOR MANUFACTURING CO,
HOLBORN VIADUCT,
LONDON, E.C. 1.

DEAR SIRS,

We have received your favour of the 11th inst. offering [illegible] 5-lb tins of "Germolene" at 30/- per doz. tins, less [illegible]

and hand you enclosed order No. 1271 for 10 doz. tins. We note that you make no charge for packing, and that the expense of carriage is borne by us.

Please let us have the goods by return per passenger train as we urgently need them.

We are,
Yours faithfully,
per pro GREENFIELD & SONS,
JOHN WINTER.

Order.

No. 3

ORDER

National Telephone: No. 981 BOURNEMOUTH.
Tel. Address: "DRUGS, BOURNEMOUTH."

WHOLESALE DRUGGISTS,
81 MARINE PARADE,
BOURNEMOUTH.

12th Sept. 19....

THE EXCELSIOR MANUFACTURING CO.

Kindly supply us with the following goods and oblige,

Yours faithfully,
GREENFIELD & SONS.

No. 1271

Please note the Items marked X.

Route: Per Southern Railway Passenger Train.
Urgent X.
Wanted by Sept. 15th.

10 doz. tins "Germolene" at 30s. per doz.

The Number of this Order must be quoted on the Invoice.

No. 4

Letter accompanying Order

33 PALMERSTONE ROAD,
SOUTHSEA,
17th Sept. 19....

MESSRS. SMITH & CO.,
115 CORNHILL,
LONDON, E.C. 2.

DEAR SIR,

We are in due receipt of your favour of the 13th inst., in which you quote us as follows for your "Electra" Brand of Cocoa:—

4½d. packets	@ 3/9	per doz.	
6d. "	@ 4/6	"	"
¼-lb. tins	@ 7/-	"	"
½-lb. "	@ 14/-	"	"
1-lb. "	@ 27/6	"	"

on the following conditions: For orders of 20 doz. each and upwards a special stocking discount of 5%. Terms: Cash one month, carriage paid; empties allowed for if returned within ten days.

We thank you for your sample which you kindly forwarded to us, and beg to enclose order No. 4100 for 100 doz., to which we request your best attention.

Yours faithfully,

W. WATSON & SON.

Enclosure.

No. 4

ORDER

Please note: This Number must be quoted on your Invoice, 4100.

ORDER. Telephone No.: 9191 Nat. Tel. Telegraphic Address: "WATSON, SOUTHSEA."

From

W. WATSON & SON,
83 PALMERSTONE ROAD,
SOUTHSEA,

17th Sept. 19...

To

Messrs. SMITH & CO.,
115 Cornhill, LONDON, E.C.2.

Per S. Rly. Goods Train.

	20 doz. 4½d. packets @ 3/9 per doz.
	20 " 6d. " @ 4/6 " "
	20 " ¼-lb tins @ 7/- " "
	20 " ½-lb. " @ 14/- " "
	20 " 1-lb " @ 27/6 " "
TERMS:	Cash one month, less 5% stocking discount, carriage paid.
	W. WATSON & SON

84.—**Execution of the Order.** If there has been no previous offer, the order must be confirmed in order to make a binding contract. For orders which have to be delivered at a subsequent date the confirmation is usually effected on a special form known as a " Contract Note." The transactions dealt with in this chapter have reference to goods which can be dispatched upon receipt of the order so that the advice of dispatch and the confirmation of the order are both contained in the same letter, thus rendering a special contract unnecessary.

The letter advising the customer of the execution of the order should contain the following points :—

(1) Thanks for or acknowledgment of receipt of the order.

(2) Advice of the dispatch of the goods.

(3) Reference to the enclosed invoice and the manner in which it should be paid.

(4) Request for further orders.

The invoice may be sent without any accompanying letter. When the goods are forwarded by rail the seller must also fill up a consignment note in addition to the invoice.

The invoice should contain—

(1) Date of dispatch.

(2) Names and addresses of buyer and seller.

(3) Quantity, quality, exact description and price of the goods.

(4) Terms of payment such as discount and length of credit.

(5) Remarks about the manner in which the goods are sent, e.g. post, carrier, rail, or ship.

(6) Statement whether carriage is paid or forward.

Any expenses for packing which the seller has disbursed or any other expenses are likewise charged up in the invoice. The invoice should also contain instructions concerning the return of empties and any conditions in regard to the time within which claims must be made.

No. 1

Advising Dispatch of Goods and enclosing Invoice

"DURABLE" BUILDINGS,
SOUTHWARK STREET,
LONDON, S.E. 1,
31*st August* 19....

MESSRS. JONES & CO.,
27 MOSLEY STREET,
MANCHESTER.

DEAR SIRS,

We are in receipt of your esteemed favour of the 29th inst., and are glad to note that, as a result of the trial of the " Durable " Type-writer, you have decided to place an order for one of the same make.

In thanking you for this order, we have pleasure in sending you one of our booklets giving the prices of typewriter supplies. We have also pleasure in enclosing invoice for the machine, which will be delivered to your address from our Manchester depot.

In the hope that you will bear us in mind when procuring your further supplies,

We remain,

Yours faithfully,

For THE "DURABLE" TYPEWRITER CO., LTD.,

W. HUGHES,

Manager.

Two Enclosures.

No. 1

INVOICE

If this Invoice is incorrect kindly write direct to the Head Office.

HEAD OFFICE:
"DURABLE" BUILDINGS,
SOUTHWARK STREET,
LONDON, S.E. 1,
31st August 19....

MESSRS. JONES & CO.,
27 MOSLEY STREET,
MANCHESTER.

Bought of THE "DURABLE" TYPEWRITER CO., LTD.,
Typewriter Makers to H.M. The King.

	No. 14 Model "Durable" Typewriter fitted with 10" Carriage, complete with accessories		£ 24		

Terms: Less 5% discount for cash within 7 days or 30 days net.

No. 2

Advice of Dispatch of Goods enclosing Invoice

BRIXTON PLACE,
LONDON, S.E. 9,
26th Aug. 19....

MESSRS. BROWN & CO.,
GRAFTON STREET,
MANCHESTER.

DEAR SIRS,

We have duly received your favour of the 25th inst., containing order No. 2901, and have forwarded the goods to-day per the L.M.S. Rly.

Enclosed please find invoice in duplicate amounting to £112, 7s. 3d., which please place to our credit.

Trusting the goods will give you every satisfaction and that you will favour us with your further orders.

We are,
Yours faithfully,
per pro THE ELECTRICAL SUPPLY CO., LTD.,
J. SMITH,
Manager.

Two Enclosures.

No. 2

INVOICE

In referring to this Invoice please quote No. 2189.

Messrs. BROWN & CO.,
Grafton Street,
MANCHESTER.

Brixton Place,
LONDON, S.E. 9,
26th Aug. 19...

Bought of **THE ELECTRICAL SUPPLY COMPANY, LIMITED.**

Forwarded 26th Aug. to above address.

From King's Cross per Goods Train, as per your order No. 2901.

Package No.	Quantity.	Catalogue No.		£	s.	d.	£	s.	d.
87	2 doz.	527	Electric Carriage Clocks @ 63/- each	75	12	0			
"	½ doz.	"	Spare Batteries @ 2/6 each .		15	0			
"	½ doz.	"	Spare Bulbs @ 2 6 each . .		15	0			
88	2 doz.	8621	Pocket Lamps @ 4/6 each .	5	8	0			
"	1 doz.	"	Refills @ 1/-		12	0			
"	2 doz.	98	Electric Ceiling Clocks at 27/6 each	33	0	0			
"	1 doz.	"	Refill Batteries @ 1/6 . .		18	0			
"	½ doz.	"	Spare Bulbs @ 2/6 each . .		15	0			
				£117	15	0			
			Less 5% discount . .	5	17	9			
							111	17	3
			Two boxes . .					10	0
							£112	7	3

E. & O. E.

Completes your Order.

No shortages allowed unless notified within 14 days of date of Invoice.

TERMS: 2½% ONE MONTH FROM DATE OF INVOICE.

Checked, A.B. *Exd.*, C.D. *Entd.*, E.F. Fol. 932. *By* M.W.

No 3

Advice of Dispatch of Goods enclosing Invoice

HOLBORN VIADUCT,
LONDON, E.C. 1,
14th Sept. 19....

MESSRS. GREENFIELD & SONS,
81 MARINE PARADE,
BOURNEMOUTH.

DEAR SIRS,

We beg to thank you for your order No. 1271 of the 12th inst., for 10 doz. 5-lb. tins of "Germolene." As you require the goods immediately we have sent them off this morning by passenger train via the Southern Railway, and hope they will arrive safely and give you every satisfaction.

Enclosed you will find an invoice for £13, 10s., which we trust you will settle in due course.

We are sending you under separate cover our large illustrated price list, and feel sure that it will contain a number of articles of interest to you, and which cannot be procured more cheaply elsewhere.

Trusting you will give us the preference in all your future orders.

We remain,

Yours faithfully,

per pro THE EXCELSIOR MANUFACTURING CO.,

CHAS. HALL,

Secretary.

Enclosure.

"Modern Business Methods"

No. 3

INVOICE

Telegraphic Address,
"GERMOLENE, LONDON."
Branches at NEW YORK, BERLIN,
PARIS, VIENNA.

Telephone No.:
Post Office Central 872.

HOLBORN VIADUCT,
LONDON, E.C. 1,
14th Sept. 19 ...

MESSRS. GREENFIELD & SONS,
81 MARINE PARADE,
BOURNEMOUTH.

Bought of
THE EXCELSIOR MANUFACTURING CO.

The word "GERMOLENE" is our Registered Trade Mark.

Order No. 1271. Terms: Cash less 10%.

			£	s	d	£	s.	d.
		10 doz. 5-lb. tins "Germolene" @ 30/- per doz. . .	15	0	0			
		Less 10%	1	10	0			
						13	10	0
		Per Southern Railway, Passenger Train, Carriage Forward.						

No. 4

Advice of Dispatch of Goods enclosing Invoice

115 CORNHILL,
LONDON, E.C. 2,
18th Sept. 19....

MESSRS. WATSON & SON,
33 PALMERSTONE ROAD,
SOUTHSEA.

DEAR SIRS,

We beg to thank you for your favour of the 17th inst., enclosing order No. 4100 for 100 doz. "Electra" Cocoa.

In accordance with your request we are sending the goods to-day per S. Rly. Goods train and enclose invoice amounting to £55, 3s. 3d.

Trusting to receive your further orders.

We remain,
Yours faithfully,
SMITH & CO.

Enclosure.

No. 4

INVOICE

10 Prize Medals.
6 Gold Medals.

Telegrams: "Smith, London."
National Telephone: No. 930.

Cocoa and Chocolate Makers
By Appointment
To their Majesties the King and Queen.

THE COCOA WORKS,
115 CORNHILL,
LONDON, E.C. 2,
18th Sept. 19....

MESSRS. W. WATSON & SON,
33 PALMERSTONE ROAD, SOUTHSEA.

Bought of SMITH & CO.,

Makers of Cocoa, Chocolates, French Confectionery, etc.

Day-Book S.T. 8. **Order No. 4100.**

No. of Boxes.	TOTAL.	Packed	in	cwts.	qrs.	lb.	Per	Price.	Amount.
		Parcel	Case 5	5	2	—	S. Rly.		

No. of Boxes	Total	Description	Price		£	s.	d.
5	20 doz.	4½d. Packets "Electra" Cocoa	3/9	doz.	3	15	0
	20 "	6d. " " "	4/6	"	4	10	0
Cases	20 "	¼-lb. Tins " "	7/-	"	7	0	0
	20 "	½-lb. " " "	14/-	"	14	0	0
91/95	20 "	1-lb. " " "	27/6	"	27	10	0
					£56	15	0
		5% special stocking discount			2	16	9
					£53	18	3
		5 Cases at 5/- each			1	5	0
					£55	3	3

Important.*—Damage, shortage and pilferage in transit should be reported both to the carriers and to ourselves *within two days of delivery,* as carriers decline responsibility if there is further delay. IN REPORTING TO US PLEASE QUOTE *DATE* OF THIS INVOICE AND *THE ABOVE DAY-BOOK REFERENCE.

85.—**Debit and Credit Notes.** Whether the receipt of the goods is confirmed or not depends upon the importance and nature of the transaction. If the receipt of the goods is not acknowledged, the seller takes it for granted that they have been received and found satisfactory. If the purchaser does not make

any claim within a reasonable time, or should he sell or use the goods before making a claim, he loses his right to compensation.

No. 2

MEMORANDUM

Telegraphic Address: "ELECTRO, MANCHESTER."
Telephone: No. 891 Post Office.

From
BROWN & CO.,
GRAFTON STREET,
MANCHESTER.

29th Aug. 19 ...

To THE ELECTRICAL SUPPLY CO., LTD.,
BRIXTON PLACE,
LONDON, S.E. 9

DEAR SIRS,

The goods advised in your favour of the 26th inst. have arrived safely, and so far as we can judge they are likely to give us every satisfaction.

To-day we are returning the empty boxes and enclose herewith debit note for 10/-.

Trusting to give you a new order in the near future.

We remain,
Yours faithfully,
BROWN & CO.

Enclosure.

No. 2

DEBIT NOTE

GRAFTON STREET,
MANCHESTER, *29th August* 19 ...

THE ELECTRICAL SUPPLY CO., LTD.,
LONDON, S.E. 9.

Dr. *to* BROWN & CO.

	£	s.	d.
2 Empty Boxes Returned . . .		10	0
Per L.M.S.R.			

Where allowances are made between two firms in respect of claims for returns, empties, etc., it is customary for the purchaser to send a debit note to the seller; should the latter acknowledge the debit he will forward a credit note to the purchaser. This credit is then posted to the account of the purchaser in the books of the seller, and is shown as a deduction when making out the statement. Like other documents debit and credit notes vary in form and may even be printed on post-cards or on coloured forms in order to facilitate their classification.

No. 4

Advice of Returned Empties, and Request for Credit.

POST CARD

From W. WATSON & SON,
Grocers,
33 PALMERSTONE ROAD, SOUTHSEA.

Telegrams: "WATSON, SOUTHSEA."
Telephone: No. 9191 Nat. Tel.

21st Sept. 19....

To Messrs. SMITH & CO.,
CORNHILL, LONDON, E.C. 2.

DEAR SIRS,

Returned empties as mentioned below have left for your address to-day per S. Rly., and we beg you to send us the usual credit.

Yours faithfully,

W. WATSON & SON.

5 Cases, 91/95 @ 5/- each.

No. 4

CREDIT NOTE

[illegible]

CREDIT NOTE

SMITH & CO.,
115 CORNHILL,
LONDON, E.C. 2.

If undelivered return to SMITH & CO., LONDON, E.C. 2.

MESSRS. W. WATSON & SON,
33 PALMERSTONE ROAD,
SOUTHSEA.

[illegible]

We have received the following returns per [illegible] as per your advice of the 21st inst.; if incorrect please advise us at once quoting reference No. 3242.

		£	s	d
5	Cases 91/95 @ 5/- each	1	5	0

Only actual value allowed for damaged cases and tins. Other makers' empties not accounted for.

86.—**Statements.** Statements of accounts due are sent out by most firms at definite intervals, usually monthly or quarterly. Most transactions are settled monthly, being subject to one month's credit or "Cash one month." Where the payment is expected on the 4th of the month and the statement is sent on the 1st of the month, it is customary to include all goods which have been delivered up to the 15th of the preceding month; the goods delivered between the 15th and 31st are, however, included in the statement of the next month but one. Thus, the goods ordered on the 15th receive in reality a credit of one and a half months, and those ordered on the 14th only half a month. Another method is to include all transactions which have been concluded in the preceding month in the statement sent in on the 1st of the following month and to make them due on the 15th.

The statement is frequently sent without a covering letter, and sometimes a letter in printed form is used, the date, name of the customer, and the amount being inserted. Instead of sending a statement many firms submit a printed form in the shape of a model letter, as on page 78.

The statement is not considered a demand for payment, but is regarded as an aid to the book-keeping of the seller and the buyer. Frequently a printed slip is gummed on the statement, especially in the case of small accounts:—

We would respectfully ask that you will be good enough to regard the attached account as a petty cash item, and remit as early as possible in view of the expense incidental to collecting small accounts.

CHARLES BROWN & CO.

The letter accompanying the statement should contain the following particulars:—

(1) Reference to the invoice or statement to be paid.

(2) Description of the form of payment, e.g. P.O., M.O., cheque.

(3) Request for the amount to be credited and for an acknowledgment of receipt.

No. 1

Statement without Letter

THE "DURABLE" TYPEWRITER CO., LTD.

HEAD OFFICES:
"DURABLE" BUILDINGS,
SOUTHWARK STREET,
LONDON, S.E. 1.

London Showrooms:
12 & 14 LETTER LANE, E.C. 4.

MESSRS. JONES & CO.,
27 MOSLEY STREET,
MANCHESTER.

All Accounts payable monthly: Net a/c. Index. No.	A7	16	032

Date		September.	Debit.			Credit.		
19...		This account is rendered as per our ledgers at the first of the month.						
		To account rendered. Less 5% for cash.						
31st Aug.		Machine	£24					

Kindly return this Statement with your Remittance.
No receipt valid unless given on the Company's printed form.

No. 2

LETTER ENCLOSING STATEMENT

BRIXTON PLACE,
LONDON, S.E. 9,
1st Sept. 19...

MESSRS. BROWN & CO.,
GRAFTON STREET,
MANCHESTER.

DEAR SIRS,

As we balance our books on the 1st of each month, we are sending you the statement of your account to date amounting to £109, 1s. 4d. to our credit.

Trusting to be favoured with your further orders.

We remain,
Yours faithfully,
per pro THE ELECTRIC SUPPLY CO., LTD.,
J. SMITH,
Manager.

Enclosure.

No. 2

STATEMENT

BRIXTON PLACE,
LONDON, S.E. 9,
1st Sept. 19....

MESSRS. BROWN & CO.,
GRAFTON STREET, MANCHESTER.

Dr. to THE ELECTRICAL SUPPLY CO., LTD.

Manufacturers of all kinds of Electrical Accessories.

			£	s.	d.	£	s.	d.
Aug.	26	To goods as per invoice .	111	17	3			
		Less 2½% cash discount .	2	15	11			
			£109	1	4			
		To boxes		10	0			
		Cr.				109	11	4
Aug.	29	By return empties . . .					10	0
						£109	1	4

NOTICE.—2½% *Cash Discount has been deducted* from this Account for payment by *25th Sept.* 19....

No. 4

Letter enclosing Statement

115 CORNHILL,
LONDON, E.C. 2,
15th Oct 19...

MESSRS. WATSON & SON,
33 PALMERSTONE ROAD,
SOUTHSEA.

DEAR SIRS,

Referring to our letter of the 18th and our C/N of the 28th ult., we beg to hand you enclosed statement of our account showing a balance of £53, 18s. 3d. in our favour, and shall be glad if you will let us have your remittance in due course.

Hoping our last goods gave you complete satisfaction and that we shall soon have the pleasure of receiving your further orders.

We remain,
Yours faithfully,
SMITH & CO.

Enclosure.

No. 4

STATEMENT

115 CORNHILL,
LONDON, E.C. 2,
15th Oct. 19....

MESSRS. W. WATSON & SON,
33 PALMERSTONE ROAD,
SOUTHSEA.

In account with

SMITH & CO.,

Makers of
Cocoa, Chocolates, French Confectionery, etc.

		£	s.	d.	£	s	d
Sept. 18	To Goods	55	3	3			
Sept. 28	By Returns . . .				1	5	0
					£53	18	3

Specimen Advice of Monthly Balance

Telegraphic Address:
"BREST, BRISTOL."

Please address all communications to the firm.
Telephone: Nos. 331 and 1671.

JOHN BREST & BROTHERS, LTD.,
Produce Merchants and Importers,
BRISTOL,

Established 1740

2nd Sept. 19....

STOCKTAKING.

MESSRS. WILLIAM JONES & SON, CARDIFF.

DEAR SIRS,

On balancing our books to 31st August we make the amount of your debit balance as below.

Should this not agree with your books, kindly advise us by return of post and oblige.

Yours respectfully,
p.p. JOHN BREST & BROS., LTD.,
A. DAVIES,
Secretary.

£16, 10s.

87.—**Payment and Acknowledgment of Receipt.** Accounts are usually paid by cheque and the receipt is usually acknowledged briefly on a printed form. These forms contain:—

(1) Acknowledgment of receipt of preceding letter and enclosures.

(2) Mention what the payment is for, e.g. settlement of account to date, or payment on account.

(3) Return of receipt.

(4) Request for further orders.

Where the amount is £2 or more, a 2d. stamp must be affixed to the receipt.

The paying firm frequently sends a printed receipt form to be used by the payee, or the seller may ask for the return of the statement so that the receipt may be given thereon. Some firms keep booklets of receipt forms with counterfoils similar to cheque books. In these booklets every receipt is numbered, and the various particulars are inserted on the counterfoil. Finally, some cheques have a receipt form at the foot or on the back which must be signed and if necessary stamped before they are presented to the bank. If a receipt is given on the statement the usual form is: "Received with thanks," followed by the date and the signature.

"Modern Business Methods"

No. 1

LETTER ENCLOSING CHEQUE

27 Mosley Street,
Manchester,
3rd Sept. 19...

THE "DURABLE" TYPEWRITER CO., LTD.,
Southwark Street,
London, S.E. 1.

Dear Sirs,

We have pleasure in enclosing cheque for £22, 16s. in settlement of the account as per statement below. Your receipt on the enclosed statement will oblige.

Yours faithfully,

JONES & CO.

	£	s.	d.
Your A/c .	24	0	0
Less 5% .	1	4	0
Cheque herewith .	£22	16	0

Two Enclosures.

No. 1

CHEQUE

No. 18625 Manchester, *3rd Sept.* 19...

To The North British Banking Company Limited. *Stamp*

Pay The "Durable" Typewriter Co., Ltd., *or Order The sum of Twenty-two pounds Sixteen shillings.*

JONES & CO.

£22=16=0=

No. 2

Letter enclosing Cheque

BROWN & CO.

Telegrams:
"ELECTRO, MANCHESTER."

GRAFTON STREET,
MANCHESTER,
24th Sept. 19....

THE ELECTRICAL SUPPLY CO., LTD.,
BRIXTON PLACE,
LONDON, S.E. 9.

DEAR SIRS,

Herewith we beg to enclose cheque in payment of your account as noted below.

The cheque must be presented to your bankers for payment with the form of receipt attached duly signed and dated. No other acknowledgment is necessary.

Yours faithfully,
BROWN & CO.

	£	s.	d.
Cheque .	109	1	4
Discount .	2	15	11
Contra .	—	—	—
Returns .		10	0
Amount of Account	£112	7	3

No. 3

Letter enclosing Cheque

81 MARINE PARADE,
BOURNEMOUTH,
18th Sept. 1924.

THE EXCELSIOR MANUFACTURING CO.,
HOLBORN VIADUCT,
LONDON, E.C. 1.

DEAR SIRS,

We are in receipt of your favour of the 14th inst., advising the execution of our order No. 1271 and enclosing invoice amounting to £13, 10s.

Herewith please find cheque No. 2785 on the London County and

Westminster Bank for this sum, and we shall be glad if you will receipt the enclosed blank and return to us in due course.

Your large illustrated price list has arrived, and we hope to be able to give you another order in the course of a few days.

Yours faithfully,

per pro GREENFIELD & SONS,

J. WINTER.

Two Enclosures.

No. 4

Letter enclosing Cheque

WATSON & SON,
Grocers.

33 PALMERSTONE ROAD,
SOUTHSEA,
18th Oct. 19....

MESSRS. SMITH & CO.,
115 CORNHILL,
LONDON, E.C. 2.

DEAR SIRS,

We have duly received your favour of the 15th inst., and beg to hand you cheque, value £53, 18s. 3d., in settlement of your account with us.

Please acknowledge receipt of this remittance and oblige.

Yours faithfully,

WATSON & SON.

Enclosure.

No. 1

LETTER ENCLOSING RECEIPTED STATEMENT

"DURABLE" BUILDINGS,
SOUTHWARK STREET,
LONDON, S.E. 1,
4th Sept 19 .

MESSRS. JONES & CO.,
27 MOSLEY STREET,
MANCHESTER.

DEAR SIRS,

We beg to acknowledge receipt of your favour of the 3rd inst., containing cheque on the North Western Banking Company, Limited, for £22, 16s., and have pleasure in enclosing you receipted statement.

Yours faithfully,

THE "DURABLE" TYPEWRITER CO, LTD,

W. HUGHES,

Manager

Our Statement .	£24	0	0
Less 5% .	1	4	0
Your Cheque .	£22	16	0

One Enclosure.

No. 1

Receipted Statement

THE "DURABLE" TYPEWRITER CO., LTD.

HEAD OFFICES:
"DURABLE" BUILDINGS,
SOUTHWARK STREET,
LONDON, S.E. 1.

London Showrooms:
12 & 14 FETTER LANE, E.C. 4.

MESSRS. JONES & CO.,
27 MOSLEY STREET,
MANCHESTER.

All Accounts payable monthly: Net. A/c Index No.	A7	16	032

Date.		September.	Debit.			Credit.		
19...		This account is rendered as per our ledgers at the first of the month.						
		To A/c rendered *less* 5% for cash.						
31st Aug.		Machine	£24	0	0			
		Less 5%	1	4	0			
		Your cheque . . .				£22	16	0

Received with thanks.

4*th Sept.* 19...

THE "DURABLE" TYPEWRITER CO., LTD.,
W. HUGHES, *Manager.*

Kindly return this Statement with your remittance.
No receipt valid unless given on the Company's printed form.

No. 2

Cheque with Receipt Attached

No. K. 1876 *24th Sept.* 19....

Stamp.

To The North British Banking Company Limited.

Pay THE ELECTRICAL SUPPLY CO., LTD., *or Order One Hundred and Nine pounds, One shilling, and Four pence.*

£ 109=1=4=

BROWN & CO.

Received *from* BROWN & CO. *the above-named sum in settlement of Account rendered.*

pp. THE ELECTRICAL SUPPLY CO., LTD.,
J. SMITH,
Manager.

26th Sept. 19 ...

No other acknowledgment required.

No. 3

LETTER ENCLOSING RECEIPTED BLANK

HOLBORN VIADUCT,
LONDON, E.C. 1,
19th Sept 19 . .

MESSRS. GREENFIELD & SONS,
81 MARINE PARADE,
BOURNEMOUTH.

DEAR SIRS,

We have duly received your favour of the 18th inst, enclosing cheque for £13, 10s. which we have passed to your credit and hand you herewith your blank duly receipted.

Awaiting your further commands.

We are,
Yours faithfully,
per pro THE EXCELSIOR MFG. CO.,
CHAS. HALL,
Secretary.

One Enclosure.

No. 3

Form of a Receipted Blank

From GREENFIELD & SONS.

Herewith we hand you cheque in settlement of your account, receipt of which please acknowledge on this form, and oblige.

GREENFIELD & SONS,
81 MARINE PARADE, BOURNEMOUTH.

RECEIVED of GREENFIELD & SONS *the sum of Thirteen pounds, Ten shillings.*

per pro THE EXCELSIOR MFG. CO.,
CHAS. HALL,
Secretary.

19*th Sept.* 19....

£13, 10s.

No. 4

LETTER ENCLOSING RECEIPT

COCOA WORKS,
115 CORNHILL,
LONDON, E.C. 2,
19*th Oct.* 19....

One Enclosure.

DEAR SIRS,

We are much obliged for your favour of the 18th inst., covering cheque for £53, 18s. 3d. in payment of our account to date, and beg to attach official receipt.

Thanking you for your kind consideration and trusting to be favoured with your further commands, which shall always have our best and prompt attention.

We remain,
Yours faithfully,
SMITH & CO.

To
Messrs. WATSON & SON,
33 PALMERSTONE ROAD,
SOUTHSEA.

No. 4

RECEIPT WITH COUNTERFOIL

No. 1981 19*th Oct.* 19.... WATSON & SON, *cheque in payment of account to date.* £53=18=3=	*No.* 1981 LONDON, 19*th Oct.* 19.... Received *from* Messrs. WATSON & SON, *the sum of Fifty-three pounds, Eighteen shillings, and Three pence, in payment of our account to date.* £53=18=3= SMITH & CO.

Chapter IX

BUSINESS CORRESPONDENCE (*Continued*)

88.—**Importance of Précis Writing.** The art of précis writing is invaluable to any person engaged in business. This art is unconsciously exercised by many almost every day. The capable business man in reading the news of the day makes a mental note of what he considers important—he summarises what he reads. The précis differs from a paraphrase in length. The former, being in the nature of a summary, is shorter than the original; the latter, being an attempt to simplify the meaning, usually will be longer than the original. The correspondence clerk is often called upon by the principal to submit the gist of a series of letters which may cover a long period of time. In this way the use of précis writing may prove a great time-saver.

Apart from its great utility commercially, précis writing affords an excellent means of cultivating a concise and lucid style. The beginner finds much difficulty in this exercise. It calls into play many faculties. It requires careful and discriminate reading, an exact understanding of words and phrases, and the ability to place facts in their proper perspective, to judge cause and effect. The précis must be the writer's own view of the relative value of the facts under consideration. It must be written in a compact, lucid style, arranged methodically.

89.—**Method of Procedure.**

(1) Read the extract or letters through from beginning to end, noting any points which seem to be essential to the narrative, and if necessary repeat this process until you are sure that you have a firm grasp of the matter in hand.

(2) Prepare a skeleton précis by putting down in their natural order all the points you have previously noted for inclusion.

(3) Develop the skeleton précis into continuous prose form, avoiding all superfluity of wording, but at the same time making sure that you have written clear, straightforward English prose, and not a succession of loosely-connected sentences each containing one or more isolated facts.

(4) Write the précis in the past tense.

(5) Give the date of the beginning of the subject of the correspondence, but the date of each letter must not be given.

"Modern Business Methods"

The daily papers usually give many worked examples of précis writing. They should be noted carefully. The student is advised to précis such works as Bacon's *Essays*, a scene from one of Shakespeare's plays, and speeches of our leading statesmen.

Example 1—Précis Writing

Write a précis of the following letter to *The Times*. Choose a suitable title:—

To the Editor of " The Times."

Sir,—Of all undertakings of public utility thought of as means of finding work for the unemployed, the most gigantic, as an engineering achievement, is the Channel Tunnel. The new Government will be expected to declare its policy with regard to the tunnel. The Coalition Government never announced its policy, nor gave an opportunity for discussing the subject fully in Parliament.

All engineering difficulties in connection with the construction of the tunnel have long since been overcome; its economic and commercial advantages are admitted; its political influence is accepted. The military *objections to the scheme have almost disappeared. From the point of view* of some leading soldiers, the tunnel would have been of incalculable value to the Allies during the war. At the same time, it is recognised that the war has affected the construction of the tunnel in two respects. It will be necessary to go deeper down below the bed of the ocean, and to protect the tunnel from depth charges. It is also considered to be necessary to make the exit of the tunnel a considerable distance inland from Dover.

A new main railway line would have to be constructed to London, which would give an opportunity for building the proposed new bridge over the Thames at Charing Cross. The tunnel would place London in direct communication with all the great cities on the Continent, making Charing Cross the greatest terminal in Europe. It would cheapen, as well as quicken, transport, saving harbour dues and the costs of transhipment. It would bring Paris within five hours' journey from London; it would shorten the journey to our Eastern Dominions.

For many years the project has captured the imagination of the French people, and nothing would do more to give France confidence in our friendship than the making of this physical link between the two countries. The fact that we hesitate, postpone, and evade a decision arouses suspicions in the minds of the French people.

The pre-war estimate for the cost of the tunnel was £12,000,000. We may safely double that figure now. Steel, which would be largely used in the construction of the tunnels (there would be two separate tunnels for trains, and two smaller drainage tunnels), is now cheap, and recent improvements in boring machinery will lessen the cost and shorten the period of construction. France, according to latest reports, is ready to do her part of the construction—half-way across—and is prepared to find half the cost. *As the tunnel will add enormously to railway traffic, it is expected that* railway companies on both sides of the Channel will assist in financing the

enterprise. It is believed that the capital could be raised privately, but as the tunnel would probably be under the joint control of England, France, and Belgium, governmental control should carry with it some guarantee to investors.

The construction of the Channel Tunnel would find work for a large body of skilled and unskilled workers for four or five years. It would introduce a new factor in the economic life of Europe from which this country would greatly benefit.

Yours faithfully,
ROBERT DONALD.

41 Rutland Gate, S.W. 7,
29th November 1922.

SPECIMEN PRÉCIS—EXAMPLE I

The Construction of the Channel Tunnel.

On the 29th November 1922 Mr. Robert Donald wrote to the Editor of *The Times* to say that the construction of the Channel Tunnel was the biggest engineering feat thought of to find work for the unemployed. He said that all the objections to the tunnel had been admitted. The war, however, had made a vast difference to the construction of the tunnel, in that it would have to be built at a greater depth. It would involve the construction of a new main railway line to London, thus placing London in direct communication with the Continent. To a large extent this would cheapen and quicken transport.

France had for many years favoured the plan, and according to the latest reports was ready to undertake half the work. The pre-war estimate for the cost was £12,000,000, which could now safely be doubled, and as the tunnel would increase the railway traffic, railway companies on both sides of the channel would be expected to assist in financing the scheme. It was thought that the capital could be raised privately, but as the British, French, and Belgian Governments would have control they should give some guarantee to the investors. Besides finding work for a large body of workers the tunnel would stimulate the economic progress of our country.

The précis may be written in a more condensed form as follows :—

The Construction of the Channel Tunnel

On the 29th November 1922 Robert Donald wrote to the Editor of *The Times* suggesting the building of the Channel Tunnel to relieve unemployment. He stated that all engineering difficulties had been overcome, and the various advantages and disadvantages of the scheme had been discussed.

Such a tunnel, he argued, would strengthen our friendship with France and quicken the journey to the Continent. Having estimated the cost of the tunnel at £24,000,000, Mr. Donald stated that France was ready to undertake her share, and the venture would be financed by British and French railway companies.

Example 2—Précis Writing

Write a précis of the following letter to *The Times*. Your précis should contain approximately 100 words. Choose a suitable title :—

To the Editor of "The Times."

Sir,—We shall be grateful if you can find space for some observations on the Eastern mail, which is so inefficient as to be a serious impediment to business.

Since the war we have experienced constant friction with the Chinese Customs at Shanghai—who have been quite considerate—because manifests (bills of lading and other shipping documents) which are forwarded by mail frequently fail to arrive until after the ship and cargo to which they relate are in port, and probably the Customs would be within their rights if they stopped discharge and delivery of the goods until the relative documents arrived.

Just recently, a very large firm of Eastern merchants have asked us to keep their cargo on the quay at Birkenhead for a week before shipment, in order that they may have time to get the documents to their destination simultaneously with the goods to which they refer. In other words, a fast and punctual cargo service, which is generally understood to be a valuable asset to merchants and manufacturers who wish to sell their goods, is deprived of part of its value by the absence of corresponding postal facilities.

Before the war the mails to China and Japan went by the trans-Siberian railway in about sixteen days, and no doubt in course of time the Russian Government will reach a sufficient standard of respectability to enable that service to be resumed, but meanwhile we must look to a reorganisation of the service via Suez, which in any case is likely to be the principal means of serving places south of Hong-Kong, which suffer almost as much inconvenience from the inefficient mail service as do those in the north.

The best modern cargo steamers—such as carry the bulk of the more valuable exports from this country to the Far East—take between nine and ten days on the voyage from this country to Port Said, and the average sea speed of cargo vessels is steadily increasing. It is therefore necessary that there should be a mail service via Marseilles or Brindisi every week sufficiently fast to overtake these steamers at Port Said, after having allowed time for the preparation and negotiation of shipping documents

By using some of the light cruisers which are likely to be scrapped, it should be possible to provide a service in four days from London to Port Said, as the voyage from Marseilles is only about 1550 miles, and at Port Said an intelligent postal agent would re-ship the mails by whatever steamer was likely to carry them most quickly to their destination. Saturday is the [illegible]

[illegible]

[illegible]

would arrive as soon as the goods to which they relate, and thereby considerable additional facility for British trade would be provided.

Yours faithfully,

Alfred Holt & Co

India Buildings, Water Street, Liverpool.

SPECIMEN PRÉCIS—EXAMPLE 2

The Eastern Mail—Lack of Facilities

Writing to the Editor of *The Times*, Messrs. Alfred Holt & Co., of Liverpool, complained bitterly of the inefficiency of the postal service with the Far East. They stated that bills of lading and other shipping documents arrived after the respective cargoes, and in confirmation of this they alluded to a firm of merchants who had requested them to delay the shipment of the goods so that the relative documents would be to hand in time. They attributed the cause of this inconvenience to the present state of Russia, and suggested that the service via Suez be reorganised in order to provide a more efficient system. They suggested that some light cruisers might be employed between London and Port Said to obviate the existing delay.

EXAMPLE 3—PRÉCIS WRITING

Make a précis of the following :—

(*a*)

20 HIGH STREET,
WINCHESTER,
10th March 1924.

Dear Mr. Smith,—When I left school at the end of last term you were kind enough to give me permission to use your name as a reference. I write to say that I have to-day made an application to Messrs. Jones and Evans, Tea Merchants, Mincing Lane, for the position of junior clerk in their office. I mentioned your name, and I trust you will do your best for me in the event of their writing to you. I thank you sincerely for your interest in me, and I hope I shall do credit to your training.

I am,
Yours truly,
GEORGE GRIFFITHS.

(*b*)

WINCHESTER SCHOOL,
11th March 1924.

Dear George,—I was pleased to receive your letter; indeed, it is always a pleasure to hear from my old boys. I shall be only too happy to do anything in my power to forward your welfare. Should Messrs. Jones and Evans write to me about you, I shall be able to speak in the highest terms of your industry and ability.

With my best wishes for your success,

Believe me,
Yours very truly,
HAROLD SMITH.

(*c*)

WINCHESTER SCHOOL,
12th March 1924

Messrs JONES & EVANS,
Mincing Lane,
London.

Gentlemen,—In reply to your letter of yesterday's date respecting George Griffiths, recently a scholar in this school, I wish to say that I can recommend him with the utmost confidence. He is a steady youth, possessed of good natural ability, courteous and obliging. His record at school was highly creditable, for he secured the class prize at the end of his last term. His moral character is irreproachable, and I trust and believe that he will give you every satisfaction.

Yours faithfully,
HAROLD SMITH
(*Headmaster*).

(*d*)

20 HIGH STREET,
WINCHESTER,
17th March 1924.

Dear Mr. Smith,—You will be pleased to hear that my application for the junior clerkship was successful, and that I am to enter on my new duties on Monday next. I gathered from my interview with the manager that your testimonial was an important factor in my appointment, and I wish to thank you heartily for your kindness. It will be my aim to deserve your confidence, and to uphold the traditions of my old school.

I am,
Yours gratefully,
GEORGE GRIFFITHS.

SPECIMEN PRÉCIS—EXAMPLE 3

Application for a Post

On the 10th of March 1924 George Griffiths, who had just left Winchester School, wrote to the Headmaster stating that he had taken the privilege of using the latter's name as reference in an application for a post as junior clerk to Messrs. Jones and Evans of Mincing Lane. The Headmaster, pleased with the boy's letter, replied to the firm's inquiry, warmly supporting the boy's candidature, in consequence of which he succeeded in obtaining the post. Thereupon the boy again wrote to Mr. Smith to thank him for his kindness in supporting his application.

Chapter X

WHOLESALE AND RETAIL TRADE

90.—**Division of Labour in Trade.** The buying and selling of goods or trade, as it is usually called, results from the process of specialisation in the production of goods; in other words, it is the application of the division of labour to industry. In modern civilisation we are so familiar with the increase of efficiency resulting from the application of the principle of division of labour that we are apt to take it as a matter of course. It should not be overlooked, however, that the essential conditions for an extensive division of labour, even within the same industrial area, are to be found in a very varying degree.

The conditions which allow of a highly developed division of labour in the sphere of trade are similar to those which prevail in the sphere of production. In this connection the increase in the technical efficiency of trade is of special significance. With the shortening of the time required for the delivery and dispatch of goods and the improvement in the transmission of intelligence, the hindrances of place are reduced and trade is enabled to develop into specialised branches. The rise of a money economy based upon metallic currency, the evolution of a well-developed credit system, the improvement in the transport of goods and passengers are all factors which pave the way for specialisation. Trade requires all these auxiliaries in order to provide a link between producer and consumer.

This of itself, however, is not sufficient to create a developed system of trade; in addition, it is necessary that there should be in existence a sufficiently large field of activity. This circumstance is of vital importance and helps to explain the great differences which prevail in the organisation of trade in different parts of the same economic area. In the large towns, for example, many specialised branches of trade usually enter into intercourse with the actual consumers, whereas in country districts there is no scope for such developments.

What would happen to the tradesman in a small village who devoted himself exclusively to the sale of coffee or sugar? In such a place the circle of customers would be too small to allow

a specialised business to thrive. It is not surprising, therefore, that in country places and in small towns many branches of trade are brought under the same control—branches which in large towns have been separated from each other for a long time. Even within the same city this phenomenon is visible. In the less densely populated suburban districts and in those parts of the town which are inhabited by the poorer classes, specialisation in trade is much less developed than in the densely populated and wealthier areas. Hence the significance of the conditions of demand to the trader who enters into direct intercourse with the consumers. Of course, where there is much migration of the population as in the large seaport towns, the trader is unable to rely upon his customers in regard to a portion of his turnover. A shop in one of the main streets of the west end of London is not dependent solely upon the demand of the local residents, but also upon the patronage of visitors and occasional customers. In this respect, the shops in the city centre are usually more favourably situated than those in the suburbs. The trader's prospect of supplementing his sales by the patronage of customers from other districts is on the whole much brighter in large cities than in small towns or villages. This fact helps to explain the absence of specialisation in the trade of these districts.

In those concerns which devote themselves to the mail order business, the conditions of the local demand are of smaller importance. In this kind of business there is a wide selling area from the beginning, and for this reason it has to be worked by different means in order to reach the consumers. This form of trade offers greater scope for specialisation, but is not suitable for all articles of consumption.

Those forms of trade which do not approach the consumer directly, but only deal with buyers of large quantities, are independent of local conditions for their turnover. It is much more likely that specialisation will be found in the wholesale than in the retail business. Finally, where the trader can rely not merely upon the consumers of one locality but upon those drawn from many districts, division of labour can be developed more fully without any fear of an insufficient turnover. On the whole, the conditions for specialisation in trade are very favourable in the densely populated parts of the civilised world. This has not always been the case. Even to-day, the various stages of civilisation may be seen side by side, and as we descend to more primitive conditions of existence, so the organisation of trade becomes poorer. This conclusion is fully proved by historical evidence. In the earliest stages of development there was scarcely any organisation of trade into special branches, and all sorts of trades which now

exist independently alongside each other were then concentrated in one hand.

91.—**Retrograde Tendencies in Trade.** However favourable may be the conditions for the development of specialisation in trade in the principal centres of civilisation, it is here that there has arisen in recent times a certain tendency towards a retrograde movement in the division of employments. This tendency may be observed in that branch of trade which enters into direct intercourse with the consumer. In the large departmental stores we find the most varied branches of trade all under one roof. In this case, specialisation has been abandoned, but not so the division of labour. In fact, every departmental store is based largely upon division of labour. It is split up into a series of groups each having its own staff. The essential point, however, is that it is no longer a special line of business, but that it is a concern carrying on many different branches. The division of trade into different branches leads undoubtedly to greater efficiency. Where the trader confines his attention to a definite class of goods, he is enabled to acquire a better knowledge of the sources of supply, the best way of procuring the goods, and he will gather experience of the treatment, warehousing, and grading of the goods as well as a better insight into public demand. All this knowledge and experience will be to the trader's advantage, but it will also benefit the customers. They may expect the most suitable supplies at a relatively low price. On the other hand, an extensive division of trade into specialised branches has its disadvantages to the buying public. The further this specialisation is carried the greater will be the number of businesses with which a person has to deal in order to satisfy his requirements as a consumer. This involves greater inconvenience in a number of ways. The customer will have to frequent many more shops, settle many different accounts, and be satisfied with different kinds of service. Much more time and money will be spent in the satisfaction of one's needs. Even where the customer avails himself of the facilities of modern intercourse by ordering by letter or by telephone, the expenditure in time will be greater if he has to deal with a number of different shops than if he could give his orders for everything to the same shop. If the goods are ordered to be delivered at the address of the customer by an employee of the trader much time will be lost in dealing with messengers from different shops. Under these circumstances the consumer may find the inconveniences much more irksome than the benefits resulting from specialisation are worth. These factors place a certain limit to the development of specialisation in that section of trade which deals directly with the consumer.

92.—**Wholesale and Retail Trade.** The question may be asked, "Who is a consumer?" In the wider sense of the word any buyer of goods is a consumer. It is, however, advisable to define the term more clearly. The miller who buys wheat, the pin manufacturer who buys wire, the bootmaker who buys leather, and the cloth manufacturer who buys wool do not use their purchases to meet their own immediate needs, but employ them in the manufacture of other commodities. In some cases the raw materials have to pass through several stages of manufacture before they are in a state fit for direct consumption. Thus, the woollen merchant and the iron manufacturer are buyers, but not actual consumers. It is the function of trade to enter into intercourse ultimately with the actual consumer, i.e. the person who desires to use the goods procured by trade. However, the distance from the producer to the final consumer is frequently so far that it has to be covered in several stages—a fact which helps to account for the division of trade into separate branches. If a consumer in London desires a cup of coffee he cannot apply direct to the planter in Brazil to supply him with such coffee. He must resort to a trader who keeps coffee in stock for sale direct to consumers. This trader himself, however, cannot procure the coffee direct from the planter in Brazil, but must enter into business with a wholesale dealer who buys coffee in large quantities either direct from the country of production or from brokers; but he himself is not in a position to sell small quantities direct to consumers. He is compelled to dispose of large quantities of this coffee at a time, hence he finds his customers amongst traders who are a step nearer to the actual consumers. His activity is trade in the narrowest sense of the word, because he sells goods which he has not produced himself. However, he does not do his business with the consumers but with other merchants or traders. Another section of the trader's business deals neither with traders nor actual consumers but with manufacturers. Such a trader supplies wool to the cloth manufacturer, flax to the linen manufacturer, cotton to spinners and weavers, etc. These various branches of trade have one thing in common—they offer goods for sale which they have not produced themselves, but which they have bought from the extractors or manufacturers, not with the idea of using them for the satisfaction of their own wants, but with the intention of reselling them to certain buyers. The circles of customers who obtain goods in this manner vary greatly; some seek manufacturers, others seek traders, and the third seek actual consumers as their customers. The first two classes have no direct contact with the actual consumer, but simply provide the facility for others to reach them.

93.—**Wholesale and Retail Trade compared.** It is now customary to describe trade with manufacturers and traders as wholesale business, and trade with the actual consumers as retail business. The terms "wholesale" and "retail" may easily lead to misunderstanding. They are not intended to signify dealing on a large scale or dealing on a small scale. In many cases the wholesale trade is naturally conducted on a large scale and the retail trade on a small scale, but this is by no means always the case. There are many retailers whose total turnover is as large as that of many wholesalers, quite apart from departmental stores or mail order businesses. The characteristic feature of the differentiation between wholesale and retail is not to be found in the size of the undertaking, but in the greater or lesser distance from the actual consumer. The terms are best explained by the fact that trade with the actual consumers calls for the splitting up of the goods into numerous small parcels, whereas trade with merchants and manufacturers involves the preparation of a smaller number of large parcels. As a rule the individual customers buy small quantities from the retailer and large quantities from the wholesaler. This differentiation is clear if we ask the question whether a trader is engaged in selling to other traders and manufacturers or whether he sells directly to the actual consumers.

There is still another essential distinction which must be drawn. Retail trade for the most part depends upon local conditions and customers in the selection of its locality and articles and in the fixing of its selling prices. The wholesale trade may exercise much more latitude in these matters, and unlike the retail trade is not compelled to take into account the local conditions of demand. The best seat for the wholesale business is not necessarily where the largest turnover may be expected, but the locality in which supplies and dispatch can be most easily effected. Frequently, the wholesaler prefers to establish his business in a large port from which he can best survey the whole market and thus regulate his supplies.

The position of the wholesale and retail trade also differs in regard to the necessity for keeping stock. The retailer must naturally be able to serve his customers immediately; this means that he has to keep a certain amount of stock in his business. On the other hand, the wholesaler is not so much dependent upon his stock, and in many cases may even dispense with it altogether, confining himself to sale from samples. A wholesaler's stocks may lie either in public warehouses or in bonded warehouses; they may be floating on the sea or in course of transit by rail, and yet they can easily be directed to the place where they are wanted.

Throughout the wholesale and retail trade there is a varied classification according to the nature of the goods sold. A number of important raw materials and food-stuffs, such as wool, silk, cotton, flax, grain, and flour, are, however, almost exclusively dealt with by wholesalers. Most other commodities are dealt with by wholesalers as well as retail traders.

94.—**Departmental Store.** A departmental store is one which aims at supplying completely the wants of its customers. With this object the establishment is divided into a number of departments, each of which specialises in a particular class of goods and is in the charge of a departmental manager or buyer. The buyer, while enjoying a considerable degree of responsibility, is answerable to the business manager who, in his turn, may take instructions from the managing director. The buyer is generally rationed in regard to the extent to which he can pledge the credit of the store, but within these limits he is free to buy as he may decide. His function does not end here, as he is also responsible for the sales of his department, and his supervision must be exercised over the numerous subordinates in his care. As the buyer is an important figure in the departmental store, he must be not only a specialist in his own line, but also a keen man of business. In addition to those departments which are concerned with buying and selling goods, there is the traffic department dealing with the reception and dispatch of goods, the staff department, which in some cases (e.g. Harrods) includes a staff trading establishment, the statistical department, and finally the secretary's department, which frequently includes several sub-departments, all engaged in the various phases of accounting. As the departmental store grows, it tends to undertake semi-professional functions such as auctioneering, estate agency, etc.; indeed, there appears to be no limit to its activities.

95.—**Multiple Shops.** The original idea of the chain store system was to bring the customer closer to the manufacturer. Thus we find producers of tea, boots, drugs, tobacco, etc., establishing retail establishments at different points. But many proprietors of chain stores also carry other lines of goods apart from their own manufactures. Thus the system is designed to eliminate the middleman by effecting direct contact between producer and consumer, although in many cases the same firms act as middlemen for the other lines produced by different manufacturers. The shops are owned by the productive organisation (e.g. Maypole Dairy Company) and managed by an employee, to whom the necessary authority has been delegated. The range of articles offered for sale is necessarily limited, but there is ample choice of quality. Under this system the organisation of distribution is

a matter of considerable importance, and distributing depots are generally established, each one being designed to serve a region throughout which the nature of demand is fairly uniform. The central organisation exercises a close supervision, and the selling policy is directed to secure the maximum attention to the company's own products. To the proprietor the advantages are as follows:—

(1) *Economy of stock.* A sudden shortage in one store may sometimes be supplied from other stores. Extensive buying also makes for larger discount and allowances.

(2) *Economy of advertising.* One advertisement in the city newspaper will cover a hundred or more stores. The goodwill acquired in one town extends to all towns where the branch stores are situated. Persons moving to another district patronise the same firm, since they know what prices and quality to expect.

(3) *Economy of personnel.* Within limits members of the staff may be moved from place to place as required. They have been trained in the methods of the firm, can fit in any store, and are less likely to grumble at a move since it is generally a move up towards an eventual managership.

The system is a convenient one for the consumer, since it offers comparatively low prices, uniform quality, and uniform service in all parts of the country where the particular shops are to be found. The multiple shop also differs from the departmental store inasmuch as it specialises more and goes to the consumer rather than drawing the consumer to it.

96.—**Tied Shop.** A tied shop is one which, although not necessarily owned, is generally controlled in some degree by a proprietary interest. It differs from the multiple shop inasmuch as the shopkeeper is not the employee of the interest to which the shop is tied. He is apparently an independent tradesman, but actually, while retaining control of his business, he is bound to stock certain specified goods (e.g. those produced by the proprietary interest); to further their sale in preference to that of other goods and probably to dispose of a specified quantity within the year. In return for this, the shopkeeper may enjoy particularly favourable terms of credit, or receive supplies at less than the market price, or receive financial assistance or enjoy concessions in regard to rent, etc. The tied shop may emerge as a result of the financial difficulties of a tradesman already established, or it may happen that the premises themselves are bought or leased by the proprietary interest which is thus able to impose conditions upon a would-be tenant.

The most numerous type of tied shop in England is the public-house. The brewer usually owns the building, the land-

lord being his tenant; the latter may be tied for beer only or for all beverages. He may not purchase his beer, say, from any one but the owner of the house, and as a rule he does not obtain such good terms as the proprietor of a free house of which there are but few now. The object of the brewer in acquiring tied houses is to ensure a market for his wares, and in the present state of affairs he obtains a partial monopoly thereby.

As a rule great care is taken to hide the fact that a shop is tied.

97.—**Co-operative Distribution.** The co-operative movement in England was actually set on foot when the Rochdale Pioneers combined in order to supply themselves with articles of general use. Much on the same system but differing in detail was the Civil Service distributive organisation. About 1864 the Co-operative Wholesale Society was formed in England, and a Scottish C.W.S. was formed later. The co-operative movement met with considerable opposition on the part of retail traders, but this has more or less died down now. *Co-operation tends to* hinder competition to a certain extent; the thorough-going member of a society will purchase the goods he requires from the society's store without considering the possibilities of outside shops. Thus it is possible that a very mediocre line of goods may be kept on sale where co-operation is strongest, since the management has little incentive to launch out on untried but possibly better brands. The co-operative official generally plays for safety and chooses the line of least resistance. The co-operative system plays an important part in educating the working classes in political matters. Members are instructed in business methods through serving on committees and attending meetings, and they soon begin to understand the reactions of political movements on business. *The co-operator is therefore less likely to be stam*peded into voting for fantastic schemes than his less instructed fellows. Such dealings as the co-operators have with politics are on non-party lines and alienate the sympathies of no great section of the populace. Co-operation has therefore proved to the working classes how much can be done by organisation, thrift, and constitutional methods—the lesson thus learnt in respect of matters in England may also be applied in foreign countries. Co-operators in settling their own affairs are more likely to rely upon discussing the will of the majority than upon arbitrary methods. *In addition, co-operative societies always set aside a* portion of their profits for educational purposes; they sometimes organise trips to the Continent, and occasionally delegates from English societies attend congresses of co-operators abroad.

98.—**Municipal Trading.** Municipal trading is generally

understood to connote the provision by the municipality of certain social goods such as tramways, electricity, houses, and baths. It is urged in support of such provision that the public benefits by municipal control of services which in private hands would, by reason of their monopolistic nature, be very expensive. It is also suggested that in the case of tramway construction, for example, a private company would be guided exclusively by considerations of profit, while the municipality would never lose sight of the higher considerations of future development and the ultimate public good. While it is true that in many cases municipal trading is carried on at a pecuniary loss, it must be remembered that this is by no means necessarily so, and even if it were, the public are still the gainers by reason of the utility of the service rendered. For example, the provision of good public baths is of such value from the point of view of public health that the fact that they are not financially self-supporting becomes irrelevant. Many of the objections used against State ownership do not apply to municipal trading, since citizens can exercise a more direct control over the latter than is possible in the case of the former, and, moreover, it must not be forgotten that municipal accounts are subjected to the close scrutiny of the Ministry of Health.

The opponent of municipal trading affirms that the primary duty of a local body is to govern and not to trade. It is said that the assumption of trade functions results in great expense to the community which is reflected in the local rates. Moreover, the inelasticity of the system, lack of experience of the operations, and the lack of attention to small economies result in an inferior service at an inflated cost. Finally, the employees in such municipal undertakings endeavour to secure advantages for themselves by means of their votes and so corruption is engendered.

"Modern Business Methods"

BUSINESS ABBREVIATIONS USED IN TRADE

a/c . .	account.
A/C . .	account current.
amt . .	amount.
A/S . .	account sales.
@ . .	at.
B/ (B/s)	bag(s) or bale(s).
b/d . .	brought down.
b/f . .	brought forward.
bls. . .	bales.
B/S . .	balance sheet.
bush .	bushel(s).
bx(s) .	box(es).
C/ (C/s)	case(s).
C.A. .	Chartered Accountant.
c/d . .	*carried down.*
c/f . .	carried forward.
c.f. . .	cost and freight.
c.f.i. *or* c.i.f. .	cost, insurance and freight.
cg. . .	centigramme.
cm. . .	centimetre.
C/N . .	credit note.
C.O.D. .	cash on delivery.
com. .	commission.
Con. .	contra.
Cr. . .	credit; creditor.
C.W.O. .	cash with order.
cwt. . .	hundredweight.
D/A . .	documents against acceptance.
dis. . .	discount.
D/N . .	debit note.
do. . .	ditto.
D/P . .	document against payment.
Dr. . .	debit; debtor.
D/y . .	delivery.
$. . .	dollar(s).
E.E. .	errors excepted.
E. & O.E.	errors and omissions excepted.
f.a.q. .	fair average quality.
f.a.s. . .	free alongside ship.
f.o.r. . .	free on rail.
f.o.s. . .	free on ship.
f.o.t. . .	free on truck.
fwd. . .	forward.
hhd. . .	hogshead.
H.M.C.	His Majesty's Customs.
kg. . .	kilogramme(s).
km. . .	kilometre(s).
£E . .	Egyptian pound(s).
£T . .	*Turkish pound(s)*
m. . .	metre(s).
M/I . .	marginal interest.
n/m . .	not marked.
% . .	per cent.
‰ . .	per mille; per thousand
P/C . .	prices current.
pcl. . .	parcel.
pcs. . .	pieces.
pd. . .	paid.
pkgs. .	packages.
P.O. .	Post Office; postal order.
P.P. . .	parcel post.
recd. .	received.
rect. . .	receipt.
ref. . .	reference.
regd. .	registered.
retd. . .	returned.
Rly. . .	railway.
wt. . .	weight.
yd. . .	yard.

Chapter XI

PROCURING THE GOODS

99.—**Buying in General.** Before a trader orders goods he must first ascertain the extent of his requirements. The basis of this estimate is provided chiefly by his ability to judge the position of his business and the turnover he may expect. If there is any past experience to work upon, then all the factors which may lead him to increase or diminish his estimate must be carefully weighed. For the wholesale merchant the conditions of production and the state of the market are of importance. The merchant must carefully follow all reports about these matters, and he would do well to collect them so that he may be able to deduce his own opinions from them.

Careful observations and comparisons should also be made with regard to the fluctuations of demand in one's own business. This is rendered possible where statistics are kept concerning the total sales, and which will indicate the causes of the rise and fall in the sales over a certain period.

If the requirements are thus laid down, the next step is to discover the best sources from which to procure the goods. Even for the retailer this is not such an easy matter as one might think at first sight. Small businesses such as the greengrocer, the provision shop, etc., must carry a stock of seasonable goods in fresh and good quality, so that it is necessary to make arrangements with the producers to ensure such a supply. The higher we rise in the scale of retail business the more extensive and difficult become the duties and responsibilities which devolve upon the proprietor if he is to maintain his stock and to buy well and cheaply.

100.—**Methods of Buying in the Retail Trade.** In effecting his purchases there are two main channels open to the retailer:—

(1) Buying from the producer direct; and
(2) Buying from a wholesale merchant.

For obtaining oversea products such as tea, rice, coffee, etc., he utilises the services of the wholesale merchant, and for the purpose of inland products—the producer. Large businesses frequently approach the importer himself when effecting their purchases of oversea products, or in the case of home manufactures

they go straight to the manufacturer or the exporter. By frequently requesting price lists and by procuring information concerning new firms they attempt to extend the number of their sources of supply. Such businesses, in addition to efficient and general commercial training, call for a wide and specialised knowledge of the market. Most retailers address themselves to the nearest wholesaler and wait until the agent or the traveller of the wholesaler visits them; very small retail shops, however, just buy from a larger trader in the locality or in the nearest large town.

In some articles, purchase from the manufacturer has become almost general, as, for instance, in the purchase of soap, cigars, tobacco; cloth, dress materials, linen, and cotton goods. In *articles such as these the trader frequently* buys, not from the wholesaler, but direct from the manufacturer.

In the establishment of an economically sound business in the retail trade, the following points should be noted:—

(1) A retail trader should not buy from third or fourth parties, but wherever possible he should approach the most important wholesale dealers or the actual producers.

(2) He should not wait until written or verbal offers are brought to his notice, but should endeavour to find for himself the best sources of supply.

(3) Retailers whose requirements are too small to allow them to enter into direct communication with importers or producers, would do well to combine into associations for the effecting of purchases: in this way they are assured the same favourable conditions as the larger concerns.

101.—**Methods of Buying in the Wholesale Trade.** In the wholesale trade the channels through which goods are procured are more numerous and varied. Where it is a question of manufactured goods whose production is concentrated in large factories, as, for instance, textiles, the wholesale warehouseman enters into direct communication with the manufacturer and buys the goods with a view to selling them to retailers. Frequently, in such *cases it will not be even necessary for him to take the goods into* his own warehouse, but merely to keep the samples and pattern books of the manufacturer. In this way the manufacturer is saved the trouble of finding a market for his goods, and this is the reason why manufacturers leave the sale of their products to one or more wholesalers, thus compelling retailers to buy from these persons. On the other hand, there is also a tendency for the manufacturer to avoid the intervention of the wholesaler who is frequently a cause of increased expense. Where production is split up into small concerns, the wholesale merchant must

endeavour to unite the products from these small undertakings into his own hands. The wholesale merchant buys direct from the small producer, collects the goods into his own house, and prepares them for sale in accordance with the taste and needs of the various selling areas. Sometimes he takes over the goods in a partly finished condition and has them finished himself. This is particularly the case in the clothing, fur, and hosiery trades. Thus the wholesaler who has dealings with a wide market, and knows the prevailing tastes and requirements, provides the manufacturers with ideas for new samples; on the basis of these samples he collects orders, and the orders thus obtained he distributes amongst the various manufacturers. It is his activity as a middleman which procures for the small manufacturer profitable employment, and which makes it possible for many small undertakings to compete and even to export. In nearly all cases the attempts to eliminate the middleman by the small manufacturer going personally to the foreign market have come to grief; in such cases the buyer is badly served, and the small manufacturer also suffers losses through his ignorance of the market.

The products of metalliferous mining and smelting play but a subordinate part in the wholesale trade. The ore passes direct from the mines to the smelting works, and these in turn sell their products direct to the large manufacturers and consumers. It is only the small concerns which avail themselves of the services of the wholesale trade. Of great importance, however, is the wholesale trade in coal and iron, and in both these cases the wholesaler procures the goods by entering into contracts with the producers for their delivery.

102.—**Distribution of Agricultural Produce.** In the trade in agricultural produce it is easy to procure the goods where the wholesaler is in direct communication with the large farmer; from one grower, for instance, he may buy the crop before it has been harvested, or he may secure it for himself by means of a contract; and from another he may take the whole season's supply of fruit, hops, etc. Where the goods are obtained from small producers, however, the system is more complicated. The farmer in England brings his grain to the nearest weekly market, where it is bought either by a middleman or by the millers, or else the wholesale corn merchant sends his agents out to the villages and instructs them to buy small quantities of grain. Endeavours have been made in recent times to simplify this method by the establishment of grain repositories which in most cases have been called into existence by co-operative societies. The consignments of grain are collected into grain elevators.

The special markets which have developed in more recent

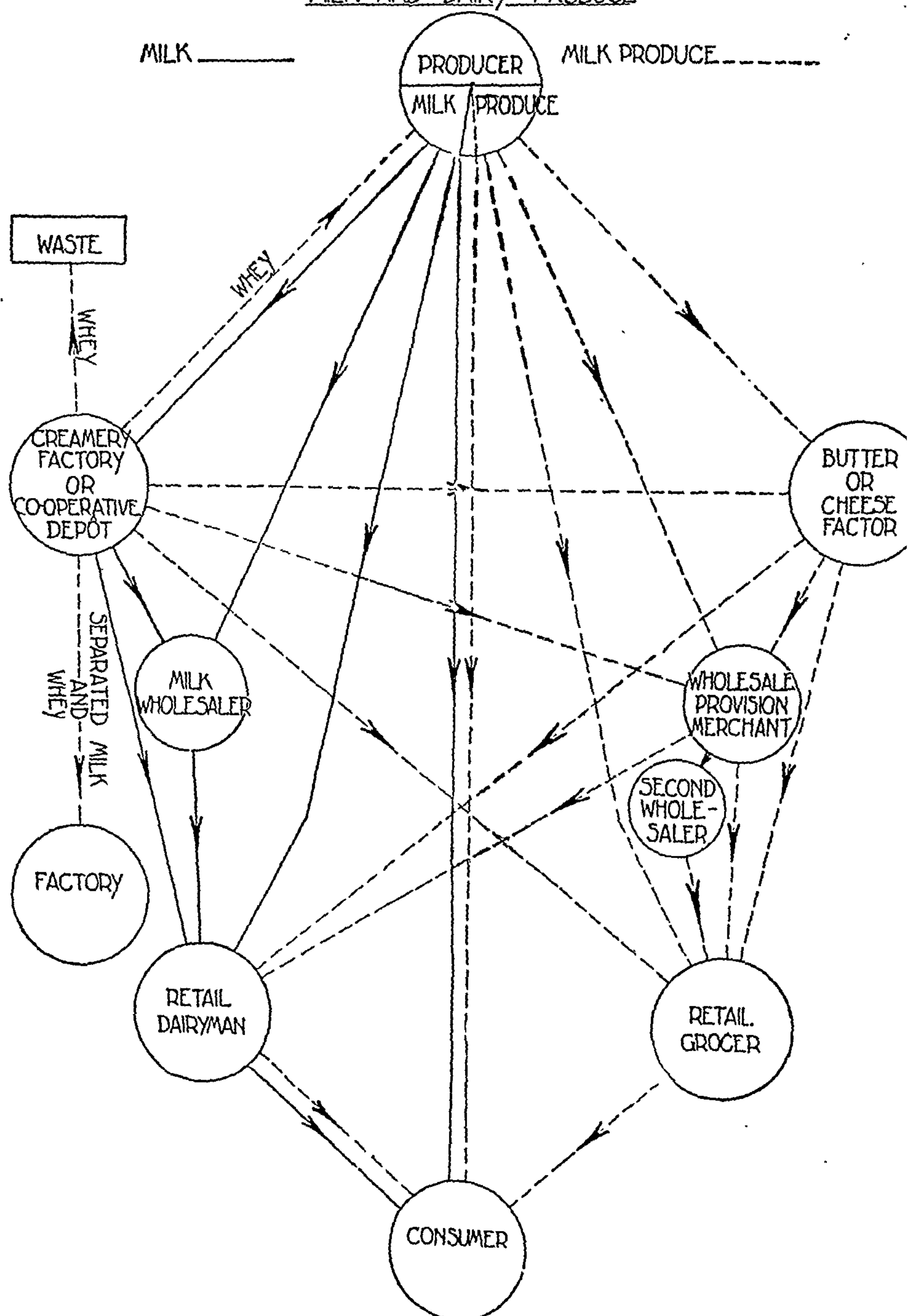
times also serve the same purpose. Here the produce of both the small and large farmers in the surrounding districts is brought into competition and is bought up by the wholesalers. Such special markets exist for cattle, wool, hops, flax, oil-seed, and oil.

103.—**Trade in Milk and its Products.** There are various methods employed for the distribution of milk through the agency of middlemen, and these may involve the milk changing hands once, twice, or even more times. The diagram on p. 106 illustrates the various methods of marketing milk and its products in operation in England at the present time.

The simplest method of milk distribution is that by which the producer sells more or less regular quantities direct to a retailer who retails direct to the consumer. The retailer may or may not chill or pasteurise according to the nature of his business. *It has been computed that fully one-half of the total quantity of* liquid milk consumed reaches the consumer in this way through the medium of a single distributer. On the other hand, the retailer may purchase his supplies from a wholesale dealer instead of buying direct from the farmer. It is obvious that the separation in distance between the producer and the urban consumer renders some sort of middleman necessary in order to contract for, and to take delivery of, supplies on behalf of consumers, and to distribute the milk efficiently and economically to their doors. Viewed in this way, the retailer performs a function as essential as production itself.

The wholesale milk trade, which is now a recognised integral part of the system of milk distribution in many towns and cities, is a comparatively recent development. During the war period there was a considerable increase in the quantity of milk passing through the wholesalers' hands. This has been attributed in part to the reluctance or inability of farmers to undertake distribution, but mainly to the fixing of a wholesalers' margin by the Ministry of Food, to the organisation of companies for the collection of milk from areas not previously tapped for supplies, and to the special and concentrated demands created during the war by hospitals and military camps.

It will be seen from the diagram on page 106 that milk passing through the wholesalers' hands may reach the consuming public through various channels. It may be railed direct by the farmer to the wholesalers' city stations, where it is collected and transported to the wholesalers' depots for cleaning, pasteurisation, and cooling, and then wholesaled to retail shops or street vendors; or it may first be taken to the wholesalers' creameries or receivin depots in the country, where, if required for liquid consumpt it is pasteurised and chilled before being dispatched on its jou



- FROM FARMER TO CONSUMER -
MILK AND DAIRY PRODUCE
MILK
MILK PRODUCE
PRODUCER
MILK
PRODUCE
WASTE
WHEY
WHEY
CREAMERY FACTORY OR CO-OPERATIVE DEPÔT
BUTTER OR CHEESE FACTOR
SEPARATED MILK AND WHEY
MILK WHOLESALER
WHOLESALE PROVISION MERCHANT
SECOND WHOLE-SALER
FACTORY
RETAIL DAIRYMAN
RETAIL GROCER
CONSUMER

to the urban consumers. In this highly organised form of milk supply, the producers have no knowledge of the final destination of their produce. The personal relation between consumers and producers is completely eliminated. The wholesalers of necessity, therefore, occupy a pivotal position from which they can observe, and to a certain degree control, all the ramifications of the industry.

104.—**Procuring Foreign Produce.** Where the wholesaler is not in a position to enter into direct communication with the producer, he must procure the goods from other wholesalers. This method of trade has to be adopted especially by the wholesalers of inland towns in the purchase of oversea produce such as cotton, tea, coffee, wool, etc.; they are obliged to address themselves either to the exporters of the countries of exportation or to the importers in this country. The importer on his part has also various channels through which he may dispose of the imported goods. Where the manufacture into finished goods is restricted to well-defined areas or to large undertakings, he may sell his produce direct to the manufacturers. Generally, however, he utilises the services of wholesalers and commission agents.

For all the important articles which enter into trade there has been created a special market or exchange which is usually located in the centre of the area of production or at the nearest port; as, for example, the grain trade of the United States is centred in Chicago and New York; the Brazilian coffee trade in Rio de Janeiro; the iron trade of Scotland in Glasgow, etc. It is in these special markets that the goods produced by the large and small producers are collected for exportation by the wholesale merchant.

In the consuming countries, on the other hand, certain ports or centres have developed into special markets for the sale of imported produce; as, for instance, Liverpool for cotton; Mincing Lane *in London for Eastern produce; and Coleman Street for Australian* wool. These importing markets maintain an intimate connection with the oversea areas of exportation where the price of the article in the world's trade is usually fixed. This price is based chiefly upon the available supplies in relation to the demand, but it is also influenced by other factors such as speculation, which at times raises the price artificially and at others depresses it. The importing markets are notified by agents in the exporting centres of the magnitude of the stocks, prevailing prices, and the tendency of the market. This information is expressed in telegrams and market reports, and exercises a great influence upon the state of business.

Chapter XII

PRODUCE EXCHANGES

105.—**Nature of the Exchange.** For the wholesale purchase and sale of certain articles exchanges have been established. An exchange is a regular meeting-place of business men for the purpose of concluding transactions which have to be executed at some other place and time. The exchange emanated from the mediæval fairs and markets, and has gradually developed with the increase of commercial intercourse and with the practice of selling various classes of goods on the basis of small samples without showing the goods in bulk. This form of dealing has made remarkable progress during the last century.

As a rule the exchanges are held daily. The members of the exchange are either traders who conclude business on their own account or middlemen who carry out the instructions of others.

Securities as well as material commodities are the subject of exchange, and a distinction is therefore drawn between stock exchanges and produce exchanges, the latter being divided into those exchanges on which various goods such as grain, flour, pulse, oil-seeds, etc., are sold, and those on which business is transacted in one article only. The conditions required for the development of a modern exchange whether for commodities or securities are :—

(1) A large number of parties dealing.

(2) A large amount of commodities or securities to be dealt with.

(3) An organisation by which all persons interested in the commodity or security can regularly communicate with one another.

(4) The existence and frequent publication of statistical and other information as to the present and probable future supply of the commodity or security.

106.—**Organisation of the Exchange.** The organisation of produce exchanges in the various civilised countries differs greatly ; in some cases they are entirely independent and without any supervision on the part of the State, whereas in other cases they are under the control either of the State or the municipality.

Every exchange has a code of regulations which contains the

rules concerning its management and organisation and a statement of the branches of business for which the exchange is intended, as well as the conditions of admission to the exchange. The exchange committee is responsible for the issue of exchange prices and quotations.

The position and the privileges of members vary considerably in one exchange as compared with another. In some continental ex- [illegible]

account; and the case of the London Stock Exchange, with its special class of "jobbers," who are forbidden to deal directly with the outside public, is also worthy of note, although in the majority of cases no restrictions of this nature are imposed. Membership of the more important exchanges is a valuable privilege which is often purchased at a high price. This is particularly the case where there is limitation of numbers, and as might naturally be expected, the price of membership varies with the state of trade.

As a rule written application for membership has to be made to the exchange committee and the names of several guarantors must be supplied with the application. On the other hand, the rules of the exchange stipulate precisely the conditions of eligibility for membership. Every member who, in his exchange dealings, makes himself culpable of an action which is not consonant with the honour of the exchange is subject to the Court of Arbitration which settles disputes between the various members of the exchange. The exchanges are usually held during the middle of the day, say between twelve and two o'clock. In addition to this midday exchange there is also an earlier and a later exchange which takes place before and after the principal exchange. Outside the exchange building persons who are excluded from the public exchange meet in coffee-houses or restaurants and hold a kind of "nook-and-corner" exchange which is not subject to the control of the exchange proper.

107.—**Description of Commodities.** As we have already mentioned, the goods to be sold are not brought to the exchange, but it is sufficient if a small sample is shown or if the various qualities of an article are described. In dealing in raw cotton, for instance, two things are important :—

(1) *The place of origin.* This is given by the Liverpool Cotton Association as follows:

(*a*) North American cotton: Sea Island, Upland, Florida, Florida Sea Island, Texas, and Orleans.

(*b*) Brazilian: Pernambuco, Cerra, Paraibo, Rio Grande, Bahia, Santos.

(*c*) West Indian : Fiji and Tahiti, Sea Island, West India.
(*d*) Peruvian : Peru Rough, Peru Smooth, Sea Island.
(*e*) Egyptian : Egyptian Brown and Egyptian White.
(*f*) East Indian : Bengal and Surat.

(2) *Quality*. The cotton is divided according to quality into different classes, each of which has a technical name :—

(*a*) Ordinary.
(*b*) Good ordinary.
(*c*) Low middling.
(*d*) Middling.
(*e*) Good middling.
(*f*) Middling fair.
(*g*) Fair.

Middling is the average quality, ordinary is the most inferior, and fair is the best. Samples of these qualities with their corresponding description are exhibited on the exchange in Liverpool, and these samples serve as the basis for all business transactions. If on receipt the goods do not answer this description, the Court of Arbitration compares a sample of the goods supplied with the standard and decides what amount has to be allowed for the deficiency in quality.

Every member of the exchange knows these descriptions, and for that reason they are quoted in all the exchange reports. The conclusion of a transaction is effected by means of a contract note which has to be filled up. As a rule this is done, not by the seller or the buyer, but by the broker who acts as middleman and takes over the mediation of the purchase or sale of goods. The contract note should contain :—

(*a*) The place and date of the contract.
(*b*) The names of the buyer and the seller as well as that of the broker.
(*c*) A description of the goods—their nature and quantity.
(*d*) The purchase price and the conditions of payment.
(*e*) Instructions concerning place of delivery and time of fulfilment of the contract.
(*f*) Acknowledgment of the deposit money, if any.
(*g*) Signatures of the buyer, the seller, and the broker.

Apart from these particulars contract notes usually have printed on them the customs of the trade, and a statement that both parties—the buyer and the seller—must submit to these customs.

Two copies of the contract note are drawn up—the one signed by the seller being handed over to the buyer, whereas the second

copy is submitted to the buyer for his signature. This work is usually undertaken by the broker, who prepares both copies, signs them, and gets the buyer to sign one and the seller to sign the other, and then he exchanges them.

Where the broker concludes the business on the basis of a sample of goods handed to him, he is compelled to keep the sample until the final fulfilment of the contract. He is responsible for any loss due to his own negligence which may fall upon the parties, but he is not entitled to accept deposits on the purchase price of the goods. For his services he receives a remuneration known as brokerage, which, unless there are contrary arrangements or unless the local customs call for different treatment, is borne equally by the buyer and seller.

108.—**Kinds of Transactions.** Exchange transactions may be divided into four classes according to the time allowed for the fulfilment of the contract :—

(1) Spot transactions, which have to be fulfilled on the day of the making of the contract. The goods are usually in a warehouse or at the docks ready for delivery.

(2) Transactions in goods "to arrive." In this case the goods have already been handed over to the railway company or the steamship company at the time of entering into the contract. The quality of such goods is usually ascertained before arrival, either by "type" or by standard or description. In the contract of sale of goods "to arrive" the expression "tale quale" is usually inserted ; this means that although the goods are warranted to be in conformity with the sample or description submitted at the time of the sale, the buyer takes the risk of any subsequent damage they may sustain on the voyage.

(3) Contracts for shipment within a specified time. In this case the seller engages to ship the goods sold at the time specified. For instance, a cotton-spinner buys three hundred bales of cotton in British India with the proviso that one hundred bales shall be shipped in October, one hundred in November, and one hundred in December ; in this way he covers his requirements at a price favourable to him without the necessity of having to pay the whole amount at once and also avoids the difficulty of having to warehouse the whole quantity.

(4) Time dealings, in which the seller enters into an obligation to deliver the goods sold within a specified period. In the conclusion of such transactions both the buyer and the seller expect to derive an advantage from the fluctuation of prices in the future—the one anticipating a fall and the other a rise. Thus a farmer who expects to harvest 3000 bushels of wheat which will not be ready for delivery until November, may sell the whole

(c) West Indian: Fiji and Tahiti, Sea Island, West India.
(d) Peruvian: Peru Rough, Peru Smooth, Sea Island.
(e) Egyptian: Egyptian Brown and Egyptian White.
(f) East Indian: Bengal and Surat.

(2) *Quality*. The cotton is divided according to quality into different classes, each of which has a technical name:—

(a) Ordinary.
(b) Good ordinary.
(c) Low middling.
(d) Middling.
(e) Good middling.
(f) Middling fair.
(g) Fair.

Middling is the average quality, ordinary is the most inferior, and fair is the best. Samples of these qualities with their corresponding description are exhibited on the exchange in Liverpool, and these samples serve as the basis for all business transactions. If on receipt the goods do not answer this description, the Court of Arbitration compares a sample of the goods supplied with the standard and decides what amount has to be allowed for the deficiency in quality.

Every member of the exchange knows these descriptions, and for that reason they are quoted in all the exchange reports. The conclusion of a transaction is effected by means of a contract note which has to be filled up. As a rule this is done, not by the seller or the buyer, but by the broker who acts as middleman and takes over the mediation of the purchase or sale of goods. The contract note should contain:—

(a) The place and date of the contract.
(b) The names of the buyer and the seller as well as that of the broker.
(c) A description of the goods—their nature and quantity.
(d) The purchase price and the conditions of payment.
(e) Instructions concerning place of delivery and time of fulfilment of the contract.
(f) Acknowledgment of the deposit money, if any.
(g) Signatures of the buyer, the seller, and the broker.

Apart from these particulars contract notes usually have printed on them the customs of the trade, and a statement that both parties—the buyer and the seller—must submit to these customs.

Two copies of the contract note are drawn up—the one signed by the seller being handed over to the buyer, whereas the second

copy is submitted to the buyer for his signature. This work is usually undertaken by the broker, who prepares both copies, signs them, and gets the buyer to sign one and the seller to sign the other, and then he exchanges them.

Where the broker concludes the business on the basis of a sample of goods handed to him, he is compelled to keep the sample until the final fulfilment of the contract. He is responsible for any loss due to his own negligence which may fall upon the parties, but he is not entitled to accept deposits on the purchase price of the goods. For his services he receives a remuneration known as brokerage, which, unless there are contrary arrangements or unless the local customs call for different treatment, is borne equally by the buyer and seller.

108.—**Kinds of Transactions.** Exchange transactions may be divided into four classes according to the time allowed for the fulfilment of the contract:—

(1) Spot transactions, which have to be fulfilled on the day of the making of the contract. The goods are usually in a warehouse or at the docks ready for delivery.

(2) Transactions in goods "to arrive." In this case the goods have already been handed over to the railway company or the steamship company at the time of entering into the contract. The quality of such goods is usually ascertained before arrival, either by "type" or by standard or description. In the contract of sale of goods "to arrive" the expression "tale quale" is usually inserted; this means that although the goods are warranted to be in conformity with the sample or description submitted at the time of the sale, the buyer takes the risk of any subsequent damage they may sustain on the voyage.

(3) Contracts for shipment within a specified time. In this case the seller engages to ship the goods sold at the time specified. For instance, a cotton-spinner buys three hundred bales of cotton in British India with the proviso that one hundred bales shall be shipped in October, one hundred in November, and one hundred in December; in this way he covers his requirements at a price favourable to him without the necessity of having to pay the whole amount at once and also avoids the difficulty of having to warehouse the whole quantity.

(4) Time dealings, in which the seller enters into an obligation to deliver the goods sold within a specified period. In the conclusion of such transactions both the buyer and the seller expect to derive an advantage from the fluctuation of prices in the future—the one anticipating a fall and the other a rise. Thus a farmer who expects to harvest 3000 bushels of wheat which will not be ready for delivery until November, may sell the whole

parcel in August on the basis of a sample and deliver the goods when ready in November.

In the case of time dealings the actual delivery and receipt of the goods must take place before the expiration of the arranged time. As a rule the seller decides the date of delivery, but he is obliged to give notice of it beforehand to the buyer.

109.—"**Futures.**" The foregoing transactions are actual transactions, that is, the goods sold by the seller are actually delivered and taken over by the buyer. These transactions differ from dealings in "futures," which have developed as a separate form of business out of the ordinary time dealings. The chief characteristics of "futures" are :—

(1) Transactions in them may only be concluded in a specified quantity or a multiple thereof; e.g. 100 bales of American cotton. The magnitude of the unit naturally varies in different commodities and on different exchanges.

(2) The time of delivery cannot be determined optionally by the buyer and the seller, but it is regulated by the custom of the exchange. The terms of delivery are generally as follows :—

(*a*) Per current month, that is, from the day of the conclusion of the transaction to the last day of the same month.
(*b*) Monthly terms, which embrace a full month, as, for instance, per February, per March, etc.
(*c*) Bi-monthly terms, as, for instance, January–February, May–June.
(*d*) Long terms, which usually embrace four or six consecutive months, as, for instance, per January–April or per May–August.
(*e*) Terms with specified names as, for instance, Spring term or August term.

(3) The quality is not agreed upon from transaction to transaction between the parties, but it is always established for one and the same goods in a minimum quality. This specified grade, known as the "Contract" or "Standard" grade, must be thoroughly representative of the commodity, widely distributed, and readily obtainable when required. When it is necessary to tender another quality within the range permitted, allowances are made to the buyer or to the seller according as to whether the quality is inferior to or better than the standard.

Transactions in "futures" also differ from ordinary time transactions in that the vouchers prescribed by the various exchanges have to be employed. The contract note in a "future" transaction usually states that the goods sold must be delivered to the buyer against cash, and that the buyer may not hand the contract note

(1) The settling of differences caused by the rise and fall in prices.

(2) The elimination from each contract of all the intermediate parties between the first seller and the last buyer who settle the contract between them.

To illustrate this system let us imagine a contract for the future delivery of a hundred bales of cotton whose value at sixpence per lb. is £1000, and the dealings in which are as follows :—

Black sells to Green for £1000.

The market rises and

Green sells to Gray what he bought from Black for £1000 for £1050, making a profit of £50.

The market again rises and

Gray sells to Brown what he got from Green for £1050 for £1080, making a further profit of £30.

The market then falls and

Brown sells to White what he bought from Gray for £1080 for £1020, making a loss of £60.

If there were no such thing as a clearing-house it is quite plain that Black would have to settle with Green by delivering the hundred bales and obtaining from him £1000; Green, on his part, would have two contracts to settle, namely, one with Black, paying him £1000 and obtaining delivery of the hundred bales, and the second contract with Gray, delivering to him the same hundred bales, and obtaining the amount of £1050, which includes his £50 profit.

Gray also would have two contracts to settle, one with Green, paying him £1050 for the hundred bales, and the other with Brown, who pays him £1080, in which his profit of £30 is included; Brown would have in like manner two contracts, one with Gray, whom he pays £1080 for the hundred bales, and the other with White, who, let us suppose, is a spinner and requires the cotton for spinning purposes. But as Brown had to pay Gray £1080 and only gets £1020 from White, he makes a loss of £60, which he has to find and add to the amount received from White.

Thus in this simple example, there would be no less than eight separate contracts to settle. Under the clearing-house system the following procedure would be adopted: Black issues a ticket, representing the hundred bales for which Green has to pay £1000, but instead of paying, Green passes on the ticket to Gray, who in turn passes it on to Brown, and Brown again passes it to White. The clearing-house now brings the first seller, Black, into contact with the last buyer, White, without the intervention of Green, Gray, and Brown, who, to all intents and purposes, fall out of the transaction, except that they draw from the clearing-house the profits they make, or pay in the amount of their losses.

From the above example it will be seen that an enormous [illegible]

[illegible] Crop Reporting. [illegible] are to be found wheat exchanges on which considerable business is done in "futures." Tendencies in one exchange react on the others most speedily owing to modern facilities for communication. Each exchange has methods of divining the probable yield in different wheat areas.

First of all, endeavours are made to ascertain the acreage sown in the different areas. A rough estimate may, in ordinary times, be obtained from the official statistics for the previous year of the State in question, while reports from correspondents on the spot give information as to the probable increase or decrease in the present year. Next, weather conditions must be taken into account; frost, lack of rain, or too much rain, hail, etc., account for meagre crops in many cases, while the spreading of rust, etc., acts in a similar way. Continuous reports must therefore be made from the appearance of the blade to harvest-time. Towards harvest the acute observer is able to render a report as to quality as well as probable yield, and a fairly good guess as to the probable yield for each grade in each variety is possible. When harvest is yet nearer, reports as to shortage or otherwise of harvesters and transportation become necessary. Finally, after harvest, reports may be obtained from the elevator companies, Government officials, or others. A great deal of information is to be gleaned from papers such as the *Mark Lane Gazette.*

With information from different quarters as to wheat at different stages of growth, provision may be made to make up the deficiencies of the Dakota crop from Russia, or the Argentine crop from South Australia.

113.—**Functions of Dealers and Speculators.** A man may frequently be a very good manufacturer but a poor merchant; another may be a poor manufacturer but an excellent merchant. These two men may possibly succeed in paying their way, but if they decide to devote their entire time to the tasks they are best able to do—to specialise, in other words—a greater success is bound to result. The manufacturer will therefore sell his goods wholesale to the merchant, and the latter will distribute them. Now, however excellent an organisation the merchant has, and however clever he may be, he is rarely able to reach the ultimate consumer direct. He knows that there is a general demand for his goods, but he cannot accurately gauge the particular demand of particular districts; thus while he may supply certain large retailers

direct he will also supply smaller wholesalers in different districts—the latter supplying small retailers, and in some cases the ultimate consumer as well. The smaller wholesaler and the retailer will naturally have a more intimate knowledge of local conditions. It is said that the greater the number of middlemen, the greater the ultimate price of the commodity. This may be true, but at the same time the smaller the number of middlemen the greater the fluctuations in price, which is even worse in some cases. Each middleman is a risk-taker, and is rewarded for his risk by the profit that he imposes. As against the argument that the middleman increases prices, it may sometimes be said that he helps to lower them; for instance, a person may be in need of an article for which he is willing to pay £10, having little knowledge of the market and having experienced much difficulty in finding one at all. The dealer, having superior knowledge of possible supplies, may be able to procure the article for £8, including his own profit. But the former owner, having hitherto failed to sell his article at all, might have been willing eventually to sell for a mere song. The dealer, however, has benefited both parties.

Dealers relieve the manufacturer of a financial burden in taking over his stock as it is made. It is true that he will sell on credit, but the one big account of a large dealer is of greater financial value to him than a large number of small accounts with people whose financial standing is less definite and stable.

The speculator also comes in for some hard words, but actually every business man speculates and many speculators serve a useful purpose. Now the speculator in his more useful form is an expert; he has a trained mind, some genius, and highly organised sources of information not available to other persons. If in his opinion the current price of a commodity is too low, he will buy—thus assisting, if his judgment is correct, in preventing a further relapse. If, on the other hand, prices seem to be too high, he will sell, thus helping to prevent an undue inflation of prices. He thus helps to stabilise prices, and where his judgment is correct reaps his reward. Again, if he foresees the failure of a crop, he will buy, but if he considers that bumper crops are to be looked for, he will sell. He may thus help to stabilise consumption (and to a certain extent prices) by restricting supplies in anticipation of a scarcity and vice versa.

It is true that the artificial manipulation of the market by rings, corners, and the operation known as "rigging the market," cannot be justified without much sophistry, and are best regarded as illegitimate speculation; the same remark also applies to the speculative tendencies of the uninformed public eager for the "easy money" they so rarely obtain.

Chapter XIII

DEMAND AND SUPPLY

114.—**Inquiries and Quotations.** In order to ensure favourable conditions of delivery, a trader usually makes an inquiry after having ascertained what seem to be the best sources of supply. This inquiry must be couched in precise and definite language so that no doubt is left in the mind of the supplier as to what is meant. The person making the inquiry should indicate his presumable requirements and should mention the method of payment he proposes to adopt, for upon these factors the quotation will largely depend. The trader should address his inquiries to a number of firms and solicit samples in order to ascertain by comparison the most favourable conditions of purchase. Even where business connections with certain firms have already been established, it may be of advantage to address inquiries from time to time to other firms. On the basis of these inquiries quotations are made. The trader, however, usually receives more quotations than he asks for; these take the form of price lists, catalogues, written or telephonic offers, as well as personal offers from travellers and agents.

115.—**Trade Usages.** It is important that the trader should carefully examine the various offers and quotations, and calculate which is the most advantageous after taking all the circumstances into consideration. This he can only do if he knows the trade usages and terms of payment. For instance, in the case of goods where price is based upon weight, he should know that the tare has to be deducted from the gross weight. Tare is an allowance made for the box, bag, or other wrapping in which the goods are packed. It may be :—

(1) Real tare, i.e. representing the actual weight of the wrapping. This is ascertained by taking out the contents of each package and weighing it. Goods of high value per pound, such as tea and tobacco, are tared in this way.

(2) Customary tare, i.e. when a uniform or established rate is allowed.

(3) Average tare, i.e. when one or two packages among several are weighed, and the average of the whole taken. Bags of sugar, coffee, and cocoa are usually average-tared.

(4) Super-tare, i.e. an additional allowance when the package exceeds a certain weight.

In some cases the tare is ignored and the goods are sold gross for net as in the case of loaf sugar.

Furthermore, he must know whether and to what extent allowance is made for damaged or useless portions of the goods. For instance, an allowance was formerly made (of 4 lb. in every 104 lb. weight) as compensation for loss by waste known as "tret." Apart from this there is frequently an allowance made for the evaporation or leakage of liquids during transport known as "ullage," and sometimes an allowance for the portions sticking to the packing when the goods are emptied.

Finally, the trader must note whether :—

(*a*) The cost of carriage is or is not included in the price of the goods or whether the quotation is—

- (i) Ex-warehouse or Loco (i.e. the seller hands the goods to the buyer in his—the seller's—own place of business) ; or
- (ii) Free on Rail (i.e. the seller undertakes to transport the goods to the railway station free of charge) ; or
- (iii) Free on Trucks or Free on Wagon, or Free on Board (i.e. the seller bears all the expenses of loading) ; or
- (iv) Franco (i.e. the seller pays all expenses of delivery to the address of the customer).

(*b*) Whether the price quoted is—

- (i) The cash or net price so that he must pay for the goods either at once, on receipt of the goods, or within a few days ; or
- (ii) A credit price, in which case the amount need not be paid until after the expiration of one, two, three, or four months, as agreed.

116.—**Cash and Credit Transactions.** According to the nature of the quotation a distinction may be drawn between a sale for cash and a sale on credit. Credit transactions are the more usual. In this case the buyer has the advantage of being able to dispose of the whole or of a part of the goods before the date of payment so that the discharge of his liability is rendered much easier for him. Of course the seller loses the interest on his capital for the length of the credit period, but he compensates himself for this by adding an equivalent or greater amount to the price. Where the buyer pays his account before the period of credit has elapsed it is customary for the seller to refund to him part of the interest included in the price. The amount refunded is known as discount and is expressed as a percentage.

117.—**Offers.** Offers may generally be withdrawn at any time before they are accepted, but not afterwards. Where,

however, a *firm offer* is made subject to acceptance within a specified period, e.g. three days, it is really an option; and provided some consideration is given therefor, such an offer cannot be withdrawn during that period. A *subject offer* is one by which the person making the offer reserves the right to withdraw even after acceptance. For example, a trader may offer the same article to more than one prospective buyer, though he knows that he could only execute one order for it. If he made an offer to two different people, who both accepted, he obviously could not satisfy both of them. The aggrieved party might then sue him for breach of contract. The trader must therefore offer such goods "subject to being unsold."

The issue of price lists, catalogues, and newspaper advertisements are not regarded as binding offers and therefore entail no obligation. Verbal telephonic and telegraphic offers are, as a rule, confirmed by writing in order that mistakes may be avoided. An offer is considered to be withdrawn if the revocation arrives before the acceptance is sent.

118.—**The Order.** Where the trader has decided to accept an offer, this may be effected at once if the parties are in direct contact with each other, but if they are separated the acceptance should be made by return of post. The offer is only open for a reasonable time, that is, for the period of time which it usually takes to receive a reply by return, or for the time specified in the offer. As soon as the letter containing the order has been dropped into the letter-box at the post office or has been handed to one of the firm's employees, the acceptance becomes binding and may be enforced against the firm supplying the goods.

Where the acceptance of the offer arrives too late or where any conditions are attached to the acceptance of the offer, this has to be regarded as a new offer on the part of the person giving the order, and to this the seller has to reply. In the case of offers "subject to being unsold," a quick decision must necessarily be made.

Where the trader orders goods without receiving a previous definite offer of the goods ordered, which frequently happens in the course of an established business connection, the order is not regarded as legally binding until it is accepted by the supplier, unless from the course of dealing a formal notification of acceptance is not expected by the buyer, or if the buyer has waived such a reply. Hence the custom has developed in business for a confirmation of the order to be given only in those cases where the goods ordered are not in stock or where the customer requests the goods to be delivered at a future date.

A contract for the supply of goods becomes legally binding

immediately a definite offer is unconditionally accepted, and thereafter it cannot be avoided without giving rise to the possibility of an action against the defaulting party.

In the case of written orders, the customer must specify clearly the kind of goods, the quantity, the purpose for which they are intended, the packing, method of transport, time of delivery, and mode of payment, unless it can be assumed that these particulars are known as a result of previous dealings. If the order is given on the basis of a sample previously submitted or of a sample accompanying the letter, reference must be made to it. When an order is given for a number of different articles it is advisable to enumerate them clearly on a separate order sheet or at the foot of the letter. For the sake of brevity large firms who give orders daily avail themselves of printed forms in which the conditions of delivery are specified precisely.

In urgent circumstances, a trader may be obliged to transmit an order by telegram ; in this case, he should confirm the telegram immediately by a letter in which he may with advantage give a literal repetition of the contents of the telegram. Owing to their high cost telegrams should be worded as briefly as possible. In trade with oversea countries the merchant invariably uses the telegraph when he wishes to reap the benefit of a favourable state of the market ; it would take far too long to transmit a letter. Market reports, quotations, orders, etc., may be transmitted in a few minutes by cable to the most distant places.

As the charges for oversea telegrams are very high, messages must be worded as briefly as possible without detriment to their clearness, and this has led to the introduction of telegraph codes by means of which whole sentences may be expressed by means of words or in figures. The most widely adopted code is the ABC code, which derives its name from the fact that the code words are arranged alphabetically. Every word signifies a sentence, as, for instance, " Frailty "—What is the freight ? " Governess " —How and when were the goods forwarded ? Firms who avail themselves of these codes usually give notice of the fact on their letter heads by indicating their telegraphic address with the addition "ABC Code used." Apart from the codes in general use, some large firms have their own codes, the meaning of which is kept secret between themselves and their business friends.

119.—**Treatment of Offers by the Wholesaler.** Telegraphic intercourse naturally calls for rapidity of action on the part of the wholesale merchant, who must be able to examine quickly whether an offer is likely to prove advantageous or not. Even if he is assisted in this by the fact that he only deals in a small number of articles, he must possess a much wider

knowledge than the retailer of the available sources of supply, the qualities of goods of different origin, the business usages of various places where the goods are dealt in and the general legal conditions of trade, especially with regard to buying. Likewise he must be acquainted with the currencies, weights, and measures of the foreign markets, and also with the systems of transport and insurance. In the quotation of prices he will frequently meet with the following terms:—

F.O.B. (Free on Board). The seller bears all expenses of carriage and loading up to and including the placing of the goods on board the ship.

f.a.s. (Free alongside Ship). The price includes all the expenses incurred by the seller up to the time the goods reach the ship's side, i.e. the buyer paying the cost of actually putting the goods on board.

c.f. (Cost and Freight). All expenses including the ship's freight to the port indicated are included in the price.

c.i.f. (*Cost, Insurance, and Freight*). *In addition to cost* and freight, the price quoted also includes the cost of insurance.

Likewise the wholesale merchant must know what rates are usually granted for tare or super-tare and to what customs duties the goods are subject when they come from abroad.

Frequently the wholesale merchant concludes his business transactions in person. He makes personal visits to the manufacturers and suppliers, and enters into arrangements with them concerning price, quality, and time of delivery of the goods, subsequently confirming these verbal arrangements by formal contracts or letters, or he may meet other merchants at special markets or fairs. At times he will frequent the public auctions which take place at some of the large ports and which are associated with the sale of a particular class of goods (London for tea, Amsterdam for coffee); where these periodical sales fail to meet his needs, he may resort to the permanent institution in the form of the produce exchanges which have been instituted for *the facilitation of trade in the large commercial centres.*

Where the conclusion of a contract takes place verbally by telephone, it is advisable to confirm the order in writing so as to avoid the possibility of mistake. The trader should also be clear and precise in his instructions when he gives a verbal order to a traveller or representative.

120.—**Sale by Sample.** *If* the order, whether verbal or in writing, is given on the basis of a sample submitted by the seller, a contract of sale by sample results. In this case the seller undertakes to deliver the goods exactly in accordance with the sample or pattern. This method of business is very general, and

a great variety of merchandise such as sugar, wine, coffee, etc., is sold in this way. Somewhat rarer is the sale of goods by taste or inspection, in which case the buyer reserves to himself the right to examine the goods more carefully before he decides to accept them. He may carry out this examination at the seller's place of business or the goods may be brought to him for his inspection; as a rule, a time-limit is fixed within which the buyer must decide to accept or reject the goods. An offer to sell by sample, that is, with the prospect of a subsequent order, does not entail any obligation until the offer is accepted.

121.—**Performance of Contract.** When the contract of sale is concluded the seller is obliged to hand over the goods to the buyer and the buyer is obliged to pay to the seller the agreed price. The place of fulfilment of the contract is usually the seller's place of business. Where this is the case, the buyer undertakes responsibility for all risks arising after the handing over of the goods. Should the seller consent to deliver the goods to the buyer's address he must take over the responsibility for their safe delivery and proper packing. Where the seller hands the goods over to a carrier or other transport institution the risk passes over to the buyer if the carrier acts as agent for the buyer. If the buyer gives specific instructions concerning the method of transport, and the seller without sufficient reason departs from his instructions, he is responsible for any damage which may result therefrom.

The expenses of measuring and weighing the goods are usually borne by the seller, whereas the expenses involved in taking delivery devolve upon the buyer unless otherwise stipulated in the contract.

122.—**Seller's Remedies against the Buyer.** If, in conformity with the terms of the contract, the goods are in a state fit for delivery, the buyer is compelled to accept them. Should he refuse to do so, the seller may store them in a public warehouse at the buyer's expense. The seller has also a personal remedy against the buyer for the price. If the time for payment is fixed in the contract and the buyer wrongfully neglects or refuses to pay, the unpaid seller can sue for the price of the goods, even though the goods have not been delivered to the buyer. This is the case even though nothing is said in the contract as to the time for delivery.

When the buyer wrongfully neglects or refuses to take delivery of the goods, the seller may sue him for damages for non-acceptance, and may charge him a reasonable sum for taking care of the goods.

Apart from these remedies, an unpaid seller has certain rights

against the goods themselves, notwithstanding that the ownership of the goods may have passed to the buyer. These are:—

(1) *Right of Lien.*—While in possession of the goods the seller has a lien on the goods, or right to retain them until the price has been paid.

(2) *Right of Stoppage "in transitu."*—After he has parted with the possession of the goods, the seller has, in case of the insolvency of the buyer, the right to resume possession of the goods as long as they are in course of transit between himself and the buyer, and he may keep them until he is paid.

(3) *Right of Resale.*—Where an unpaid seller, who has exercised his right of lien or his right of stoppage *in transitu*, resells the goods, the buyer acquires a good title to them, and the original buyer cannot claim them from him. An unpaid seller can exercise his power of resale in three cases:—

(*a*) Where the goods are perishable.

(*b*) Where the seller gives notice to the buyer of his intention to resell, and the buyer does not within a reasonable time pay or tender the price.

(*c*) Where in the contract the seller expressly reserves to himself the right to resell in case the buyer makes default.

123.—**Buyer's Remedies against the Seller.** Where the wholesale merchant or manufacturer has failed to execute an order, the customer may—

(1) Insist upon the fulfilment of the contract and demand compensation for delay in delivery; or

(2) He may demand compensation for loss due to non-delivery; or

(3) He may withdraw from the contract.

The buyer can only insist upon delivery if, immediately on the expiration of the time prescribed for delivery, he unconditionally demands delivery of the goods. If, however, as is generally the case, he first reminds the seller of the order and gives him an adequate time-limit beyond which he would be compelled to refuse the goods, he can no longer insist upon delivery, but can only demand compensation for loss or abandon his claim by withdrawing from the contract. Where the buyer has no further interest in the undelivered goods, as in the case of Christmas or other seasonable articles, it would be unnecessary to fix a time-limit.

The amount of damages which may be claimed as compensation consists of the difference between the price agreed upon and the market price prevailing at the time and place at which the goods were to be delivered.

It has already been stated that once an offer has been unconditionally accepted in accordance with the terms of that offer a binding contract comes into force and cannot be avoided except at the risk of an action for damages. It is not therefore legally possible to revoke an acceptance after it has been sent to the offeror. In practice, these legal regulations are not always strictly enforced, especially between business friends of long standing. As a rule, the revocation of offers and orders is allowed even though it may take place after a binding contract has been effected. It is often much better to retain a customer's good will rather than to insist on one's strict legal rights.

Chapter XIV

AGENTS

124.—**Necessity for Agents.** For the execution of his purchases and sales the wholesaler frequently utilises the services of agents. Although these agents act on his behalf they are, strictly speaking, independent traders and not employees. They carry on business undertakings of their own and have responsibilities similar to those of an ordinary trader in regard to the keeping of accounts, registration under the Business Names Act, etc.

125.—**Authority of an Agent.** Every person capable of contracting may appoint an agent to contract for him. It is not necessary that an agent should be capable of contracting in his or her own right in order to bind the principal (e.g. an infant or married woman may be appointed). The nature and authority of agents are defined in express terms or implied from circumstances and conduct. They are distinguished into :—

(1) General agents, and
(2) Particular or special agents.
(3) Universal agents.

General agents are brokers, factors, commission agents, etc., and all persons employed in business or filling a position of a general kind in which the extent of authority is apparent from the nature of the position.

A special agent is one appointed for a special or particular act.

The importance of the distinction between these two kinds of agents is that the general agent has, in relation to third parties, full apparent authority due to his employment or position. The principal is bound by all his acts within the limits of the authority usually conferred notwithstanding that the principal—

(1) Has never held him out as being his agent, or
(2) Has imposed special restrictive limits not known to the other party.

On the other hand, a particular or special agent is an agent for the specified occasion only and has no apparent authority beyond the actual limits of his authority, so that the principal is not bound by the excess of those limits whether the contracting party knew or not.

In the case of universal agents, they are empowered to do any

acts on behalf of their principals. For instance, a business man may have two totally separate businesses—his private secretary may be his universal agent, the managers of each business would be general agents, and the travellers, clerks, etc., particular agents.

In the execution of an agency the authority must in general be followed, and the principal is not bound by acts of his agent which are beyond the scope of his authority. For example, the master of a ship who has general authority to receive goods and sign bills of lading cannot bind the shipowner by signing bills of lading for goods not received on board because such acts are beyond the apparent authority of the master of a ship.

126.—**Formation of Agency.** The relation of agency may arise in three ways :—

(1) *By express appointment.* Generally, no particular form is necessary, and it may be made verbally, but

(*a*) If the agent is intended to have authority to enter into contracts under seal, the authority must be given by an instrument also under seal, called a Power of Attorney.

(*b*) The appointment must be by seal when the principal is a corporation other than a trading corporation.

The appointment must be in writing :—

(*a*) Where the agency is to continue for more than a year from the date of the agent's appointment. There must, pursuant to the Statute of Frauds, be some note or memorandum in writing signed by the party to be charged.

(*b*) Where the agent is to be employed under Sections I. and III. of the Statute of Frauds relating to the assignment and surrender of leases and estates in land.

(*c*) Where the agent is to have authority to sign for his principal in connection with Sections 72 and 80 of the Companies Consolidation Act, 1908, relating to the appointment of Directors and the compiling of prospectuses.

(*d*) Where the agent is a proxy.

(2) *By implication.* This is where the agency is presumed from the conduct of the parties :—

(*a*) An agency may be implied from the relation of the parties ; e.g. the relation of partners imports an agency for the purpose of the partnership business.

(*b*) Agency may be presumed from previous dealings on the part of the agent.

(c) Where one person has so acted as to lead others to believe that he has been appointed an agent, and knows that that belief is being acted upon, he will be estopped from disputing the agency although no agency exists. If a person sends goods to an auction room for sale he is presumed to authorise the sale.

In exceptional cases, authority is implied in law where the necessity to contract is on account of a person concerned—this involves an *agency of necessity.* In a case of necessity, any person may accept or pay a bill of exchange *supra* protest for the honour of a drawee or other party liable and may charge that party with an indemnity just as if he had received authority.

A master of a ship in necessity becomes authorised to pledge the owner's cargo for such repairs and other expenses as are necessary for the prosecution of the voyage, provided he is unable to communicate with the owner of the ship.

(3) *By ratification.* This is the subsequent adoption by one person of an act done on his behalf by another person intending to act upon his behalf but without authority.

The ratification of a contract relates back to the original making thereof, and confirms it. Hence the effect of a valid ratification is to invest—

(a) The person on whose behalf the act was done;
(b) The person who did the act; and
(c) The contracting party,

with the same rights and liabilities as if it had been done with the antecedent authority of the parties.

In order that a ratification may be binding, the following conditions are necessary:—

(1) The person making the contract must purport and profess to be acting as agent for a principal in contemplation at the time.

(2) The principal in contemplation must be in existence and ascertainable at the time of the contract. For example, a contract on behalf of a projected limited company which is not then in existence is incapable of ratification by the company when it is afterwards incorporated.

(3) The agent must only contract in respect of such things as are within the lawful capacity of the intended principal; e.g. a limited company cannot ratify any act which is *ultra vires* (i.e. beyond the powers of) the company.

(4) In ratifying the contract the principal must ratify it in its entirety; he cannot ratify part and repudiate the rest.

127.—**Rights of the Agent against the Principal.** Every agent has two rights against his principal:—

(1) An agent who duly and properly carries out the terms of his employment is entitled to recover his commission which has expressly or impliedly been agreed upon as his reward for his services.

(2) The principal, in employing the agent, is impliedly bound to indemnify him against all payments made and all liabilities incurred by him in the regular and proper execution of his employment.

128.—**Rights of the Principal against the Agent.**

(1) Every agent paid for his services is bound to exercise all the care or skill usual or necessary in or for the proper discharge of the business in which he is employed.

(2) Every agent is bound—

(*a*) To keep the principal's money and property separate from his own and other peoples.

(*b*) To furnish the principal with correct accounts of all his transactions in the course of his agency.

(*c*) To produce all the documents relating to the principal's affairs.

(*d*) To pay over to the principal all money received for or on behalf of the principal at the latter's request.

(3) The agent is bound to act strictly in accordance with instructions given by the principal, or in accordance with the business usage; e.g. an agent appointed to receive payment of debts must receive cash only unless it is in the ordinary course of business to take a cheque. Where there is no usage, and in all matters left to his discretion, the agent must act in good faith and in the interest and benefit of his principal.

(4) In accordance with the maxim *delegatus non potest delegare* (delegated authority cannot itself be delegated). An agent cannot as a general rule delegate his authority to another person without receiving special authority to do so. A factor or broker employed to sell goods for his principal cannot delegate his authority to another. In such a case, the principal might affirm the transaction and claim any profit beyond the agent's usual commission and charges.

Exceptions to these rules are—

(1) Where an agreement expressed or implied is entered into to allow the agent's authority to be delegated.

(2) Where the agent is authorised to employ such sub-agents by usage of trade, e.g. directors of a company may execute the ordinary business of the company through the secretary or other qualified officers. But they cannot delegate such matters as the allotment of shares, the making of calls, and the enforcement of forfeiture of shares in case of non-payment.

(3) Where the agency involves no exercise of discretion, and *it is immaterial* whether it be done by one person or another; or where a merely ministerial act is performed by the hand of another.

129.—**Fiduciary Relationship between Principal and Agent.** An agent must not derive any secret profit or advantage, direct or indirect, out of any transaction entered into on behalf of the principal in the course of his employment, because the relation between them is a fiduciary relation based upon the trust or confidence reposed by the principal in the agent. Hence:—

(1) An agent must *not enter as such into any transaction in* which he has a personal interest unless the principal allows him to do so, and it is immaterial to inquire what effect the interest had upon the agent's mind. Where any such transaction has been entered into, and the principal ascertains the facts of the case, he may repudiate the transaction or adopt it and claim the secret profit made by the agent. An agent who receives a secret profit from the other side or who acts dishonestly towards his principal thereby forfeits all claim to any commission he would otherwise have been entitled to in an ordinary transaction.

(2) An agent must not depart from his character as agent and become a principal party to the transaction even though his change of attitude is not detrimental to the principal. An agent employed to sell property cannot become the buyer of the property, and so an agent employed to buy property cannot buy it for himself. If the agent acts in violation of this rule the principal may—

(*a*) Affirm the contract and recover the secret profit; or
(*b*) Repudiate the transaction so as to be enabled to resist any action brought against him if the contract is still incomplete; or
(*c*) Take proceedings to have it set aside if it is completed before he discovers the truth.

(3) An agent must not accept any bribe or secret commission and must not acquire any personal benefit beyond the remuneration agreed upon unless it is with the principal's consent The principal may claim the amount of any secret profit made by the agent *in the course of his duties on behalf of his principal*, and may sue the briber for damages, or he may repudiate the contract with the briber. The principal may also dismiss the agent if the agency is a continuing one. Accepting a bribe disentitles the agent to receive any commission at all. Even when there is a usage of trade, the agent should not make a double profit, unless the principal approves, actually or constructively.

Under the Prevention of Corruption Act, 1906, the agent and briber may be fined or imprisoned, but criminal proceedings may not be taken without the consent of the Law Officers of the Crown.

130.—**Mercantile Agents.** According to the Factors Act, 1889, Section 1, a mercantile agent is one "having in the customary course of his business as such agent, authority either to sell goods, or to consign goods for the purpose of sale, or to buy goods or to raise money on the security of goods." By virtue of this Act a sale of goods by a mercantile agent gives the purchaser a good title, even though the agent has not the requisite authority from his principal to sell, provided that the purchaser acts in good faith and without notice of the lack of authority in the seller.

131.—**Kinds of Mercantile Agents.** The most important types of mercantile agents are as follows :—

(1) *Factor.* This is an agent who is employed to sell goods consigned or delivered to him, and who receives a payment called commission for his services. He acts as if he were himself the principal and has possession of the goods, may sue in his own name, and has a lien over the goods.

(2) *The manufacturers' agent* is very similar to the factor and constitutes one of the commonest types of mercantile agents in this country. He acts as a middleman between the manufacturers whom he represents and the wholesale merchants.

There are two kinds of manufacturers' agents : one is only allowed to introduce business, and his principals must confirm the transactions ; the other may conclude them independently. The manufacturers' agent is usually appointed for a particular locality, and it is his duty to find out for his principals the best outlets for sale and to effect purchases or sales under the most favourable conditions. The legal relationship between the manufacturers' agent and the firms which he represents is usually expressed in a contract of agency. In general, he is expected to safeguard the interests of his principals with the same care as an ordinary trader. He must supply his principals with any required information and notify them of any business transacted. He can only depart from the instructions of his principals where he can legitimately assume that they would approve of his action ; he must therefore immediately advise the principals and await their decision unless loss or damage would arise from the delay.

Sometimes a manufacturers' agent carries a stock of goods from which he executes the orders directly, or he may have a sample room in which he exhibits samples. The manufacturers' agent may only collect accounts if he has been specially authorised to

do so by the principals, and only in this case is he entitled to grant credit terms independently. For all transactions which the manufacturers' agent concludes on behalf of his principals he usually receives a commission which is expressed as a percentage on the value of the transaction which has been effected.

(3) *Commission agent.* If a wholesaler does not appoint local agents, or if he wants to [illegible] opportunities for buying or selling [illegible] avail himself of the services of a [illegible] mission agent is an independent trader who, in his own name and for account of another, buys or sells goods. Thus the wholesale merchant may utilise his services for the conclusion of a single transaction, or, on the other hand, he may enter into a permanent connection with him and entrust him with all his business in a distant place.

In order to induce his principals to enter into business with him, the commission agent keeps them well informed concerning all matters of interest such as expected crops, harvest returns, business prospects, etc., by sending them regular market reports. If from these a principal recognises the market as favourable, he accordingly instructs the commission agent to act on his behalf, but frequently limiting the price beyond which the commission agent may not go. If the latter is successful in selling the goods at a higher price or in buying them at a lower price than the limit stipulated, the difference does not revert to the agent but to his principal. As a precautionary measure many principals demand a *pro forma* account before they give an order. The commission agent then makes up an account in which he shows the purchase price of the goods in accordance with the prevailing market price, and also an estimate of the expenses which will probably be incurred.

On the conclusion of the transaction the commission agent must notify his principal without delay, and to his advice he usually attaches the invoice which shows the purchase price of the goods, the amount of the expenses, and his commission. The commission is fixed in percentages, and is calculated in the case of purchases upon the total price inclusive of the expenses; in the case of sales, however, it is calculated upon the selling price before deducting any expenses. These expenses consist of the disbursements made by the commission agent in taking delivery of the goods, weighing, repairs, packing, cartages, customs duties, postages, and warehouse rent.

As a rule, the settlement of the account is affected by means of a bill of exchange. The commission agent covers himself for the amount of his purchases by a draft upon his principal, which

he usually issues after his account has been passed as correct by the principal. Likewise in the case of sales by the commission agent, the settlement takes place as a rule by means of drafts which the principal issues sometimes even before the goods have been sold and thus obtains an advance. If the selling commission agent guarantees the payment of accounts by his customers he is entitled to a further commission known as a *del credere* commission.

(4) *Foreign commission agents.* In overseas trade the principal frequently forwards to his commission agent whole cargoes for sale at the best possible prices, which is known as trade on consignment. In this case the principal is called the consignor and the commission agent the consignee. The shipment is accompanied by an invoice or an account called the consignment invoice, in which the principal enters the price which he desires to be realised for the goods. Where the wholesale merchant is in permanent intercourse with a commission agent, he does not send him goods for each individual transaction, but he maintains a stock of his goods with the commission agent, known as goods on consignment. As in other cases the commission agent is entitled to claim warehousing expenses. The commission agent has a lien upon the goods so long as they are in his possession or so long as he can dispose of them by means of a consignment note, bill of lading, or other document of title.

(5) *Broker.* A broker is a mercantile agent employed to buy or sell goods for a compensation known as brokerage. He is primarily agent for the vendor, but when the bargain is completed he represents both parties. As a rule, he is not personally liable; he cannot act in his own name, and he does not have possession of the goods. His bought and sold notes constitute the bargain, if they agree; otherwise the signed entry in the broker's book must be referred to. Two specialised kinds of brokers are:—

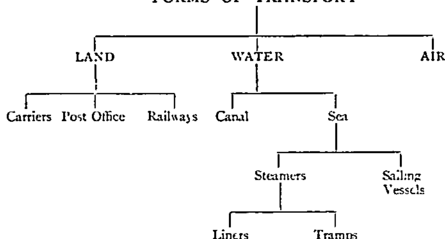
(*a*) The stock broker, who is a member of the London or of a provincial stock exchange, and acts on behalf of clients in the purchase and sale of stocks and shares. The principal is bound by the customs of the exchange even if he is unacquainted with their nature or existence, unless they are unreasonable, or illegal.

(*b*) The insurance broker, who effects policies of insurance, generally of marine insurance. His position is peculiar, in that he is personally liable as principal to the underwriters for the premiums to be paid, and as agent of the insured he has a lien over the policy for the premiums and his charges.

Chapter XV

TRANSPORT INSTITUTIONS

132.—**Methods of Transport.** In addition to finding out the most favourable sources of supply, it is of great importance to the trader to ascertain the best method of transporting the goods; that is, he must consider how he can get possession of the goods in the quickest manner and at the lowest rate of freight—a matter of great importance when the trader has to take delivery at the warehouse of the seller and has to pay the costs of transport himself. The chief means of transport available are the carrier, the post office, the railway, the canal, the steamship, and the aeroplane.



133.—**The Carrier.** In local trade goods are frequently carried by means of common carriers. These, like the railways and the shipowners, are responsible for the goods they carry. In recent years transport by road has undergone a great development owing to:—

(a) The organisation of motor transport during the war:
(b) The high rates charged by the railways;
(c) The smaller upkeep charges as compared with the railway, to which may be added the decrease in the cost of petrol.

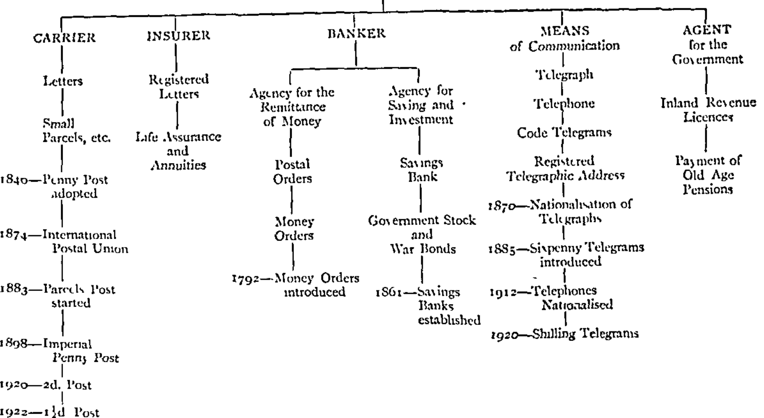
Road transport is undertaken chiefly by common carriers who engage to carry goods for any one, and various classes of these are *local carriers* who connect small towns; *railway carriers* who collect and deliver within the railway terminals; *special carriers* who specialise in one class of commodity. These carriers use both horse-drawn vehicles and motors in restricted areas, and motors for long distances.

134.—**The Post Office.** With the rapid development of the means of transport in modern times, great changes have taken place in the sphere of activity covered by the Post Office—on the one hand entailing great restrictions and on the other great extensions of the work performed by this institution. The principal forms of postal activity are the dispatch of letters and parcels, the transmission of intelligence, the telegraph and the telephone services. To these must also be added the Postal and Money Order business and the Post Office Savings Bank. The progress which has thus been brought about by the extension of its sphere of activity has been greatly accelerated by a great increase in efficiency during the last hundred years. Since the post utilises such other institutions as the railway and the steamship, it has naturally benefited by the great improvement in these means of communication, as well as by the improvement of its own internal organisation. In the diagram on page 135 the main functions of the Post Office are shown, together with the chief landmarks in its progress.

135.—**The Post Office as Carrier.** As a carrier, the postal system has experienced more drastic changes in the course of time than any other transport institution. Both the railway and the steamship service have restricted the operations of the postal service by absorbing the larger traffic and by reducing the work of the post to the carriage of small parcels and to the dispatch of letters, postcards, letter-cards, newspapers, printed matter, and samples.

The Post Office only transports small parcels of a limited weight (up to 11 lbs.), and consequently is only useful for the transmission of small packages containing articles of some value. The advantage of the parcels post over the railways is that it delivers to the address of the consignee, which the latter only do within limits.

Letters and parcels may be sent by "*express delivery*," in which case they are separated from the other letters or parcels on their arrival at the place of destination and are delivered at once by special messenger instead of waiting for the ordinary delivery. This effects a considerable saving of time, especially in the case of small places in the country having only one or two deliveries per day.


CHIEF FUNCTIONS
OF THE
POST OFFICE
CARRIER
Letters
Small Parcels, etc.
1840—Penny Post adopted
1874—International Postal Union
1883—Parcels Post started
1898—Imperial Penny Post
1920—2d. Post
1922—1½d Post
INSURER
Registered Letters
Life Assurance and Annuities
BANKER
Agency for the Remittance of Money
Postal Orders
Money Orders
1792—Money Orders introduced
Agency for Saving and Investment
Savings Bank
Government Stock and War Bonds
1861—Savings Banks established
MEANS of Communication
Telegraph
Telephone
Code Telegrams
Registered Telegraphic Address
1870—Nationalisation of Telegraphs
1885—Sixpenny Telegrams introduced
1912—Telephones Nationalised
1920—Shilling Telegrams
AGENT for the Government
Inland Revenue Licences
Payment of Old Age Pensions

136.—**The Post Office as a Means of Communication.** As a means of communication the Post Office utilises the telegraph and the telephone. It has the monopoly of all telegraph routes in the United Kingdom, including the Channel Islands, and all principal Post Offices are telegraph offices; but cable messages in London are received at and delivered from the offices of both the Post Office and the various companies owning the other cable routes. In the provinces these messages are taken in at the Postal Telegraph Offices and transmitted by the inland line either to London or to the point on the coast at which the cable system begins. Unless a private company's route is specially chosen and asked for, the Post Office will, where they have a suitable Imperial route, send the cable by that route.

137.—**Telegraphic Intercourse.** Many firms overlook the fact that by making more extensive use of the telegraph in dealing with customers a considerable increase of their turnover might be effected. It frequently happens that a customer is in urgent need of goods, but does not give the order to his usual supplier because of the delay which would be occasioned by the transmission of a letter; he either forgets to telegraph the order or sets this method aside as being too expensive. At busy seasons such as Christmas-time or holidays, demands suddenly arise which have to be met in some way or another. For long, far-sighted wholesalers have recognised this circumstance and have thought out the means of facilitating and increasing telegraphic intercourse with their customers. This is done usually by the addition in the catalogue of a certain code word to each article and each quality, and this serves for telegraphic orders. Whereas ordinarily a number of words have to be employed in the description of certain goods, the one telegraphic code word mentioned in the catalogue is now sufficient to express everything that is necessary. The customer is thus in a position to order his goods for the minimum charge of one shilling. This is of especial importance in the case of mail order businesses; it would be impossible to spend two shillings on a telegram in ordering an article which may only cost five or ten shillings, but a shilling telegram might not be too great a charge on the profits, and thus many a business man could utilise the telegraph to send urgent orders.

138.—**The Railway.** The railways are by far the most important means of transport, and are superior to other means by their advantage in speed, cheapness, regularity, and capacity for conveying large numbers of passengers or large quantities of goods. When sending goods by rail a consignment note is made out giving full particulars regarding the name and address of the consignee, the name and address of the consignor, the description

and weight of the goods, and a statement whether they are at the risk of the owner or of the railway and whether freight is prepaid or not. The freight payable is fixed according to the rates given in the railway company's rate book for that class of goods. Goods are divided into six categories, viz.:—

(1) Goods and minerals;
(2) Animals;
(3) Carriages;
(4) Dangerous goods;
(5) Goods sent by passenger train:
(6) *Parcels sent by goods train.*

Most goods sent by traders come within the first category. There are eight classes in this category—A, B, C, 1, 2, 3, 4, and 5. Class A consists of the cheaper and most bulky goods, whilst those in Class 5 are the most valuable. Rates are quoted per mile per ton for each class for the first twenty miles; for the next thirty miles at a cheaper rate, and for the next fifty at a still lower rate, and so on. In addition to freight charges there are also terminal charges to cover the rent of the stations and sidings, hire of trucks, weighing, loading and unloading, covering and uncovering.

139.—**Railway Act, 1921.** This Act was concerned chiefly with the post-war reorganisation of the railways, and its most important provision was contained in a vast scheme of absorption under which four distinct groups emerged, viz. the Southern, the Western, Midland and Scottish, and the North-Eastern. The Southern group consisted of the London and South-Western, the South-Eastern and Chatham, and the London, Brighton and South Coast, etc.; the Western group of the Great Western and the Railways of South Wales; [illegible] and North-Western, [illegible] Caledonian, Highlan[illegible] Eastern, Great Northern, Great Eastern, Great Central, North British, etc.; each group having in addition many subsidiary companies. A general revision of rates was enacted, but the class system for the carriage of goods remains substantially the same in form. Finally, a few alterations were made in the legal liability of the common carrier, who is now permitted to enjoy protection in respect of the loss of undeclared valuable goods by sea as well as by land.

140.—**Canals.** The system of canals existed before the railways, and they are especially useful in the transport of goods of little value and of great bulk, such as coal, ore, lime, china clay, etc., particularly if quick delivery is not a necessity as is the case with perishable traffic. The canals are, with few excep-

tions, cheaper than the railways owing to the cost of upkeep being much less, and there is also less risk of damage and loss.

Canals, like roads, have suffered a great deal from the competition of the railways, but they still have their advantages, the chief of which are as follows :—

(1) *Cheaper rates.* Canals can carry goods at much cheaper rates than the railways, and there are several reasons for this. First of all, the cost of the upkeep of a canal is much less than that of a railway. The permanent way of a railway has to be renewed at intervals, while inspection is continual. That of a canal costs practically nothing to maintain, the principal charges being for the upkeep of locks and canal banks. Again, the personnel on a canal is not nearly so numerous as on a railway, and here again economies can be made. Further, the capital outlay on a canal is, as a rule, less than on a railway, for the reason that while railways had to pay enormous sums for the right of way, land was usually cheaper when the canals were built.

(2) *Capacity for traffic.* The capacity for traffic on a canal is practically unlimited, but on railways the capacity is hampered by the need for running to schedule. Trains cannot pass one another easily—canal boats can.

(3) *Risk.* The risk of loss or damage is much less in canal traffic than in railways. On a canal the boatmen practically live on their boats, so that pilfering is not easy. Accidents on canals are very rare and out of all proportion to those on railways in comparison with the amount of goods carried.

(4) *Loading and unloading.* Canal boats can load or unload at any convenient place *en route.* The railway train can only unload at stated places and times, otherwise an unauthorised stop would hold up miles of other traffic.

141.—**Shipping.** The sea is the cheapest of all transport, even cheaper than that on rivers, for these have to be kept in order by constant dredging, and there are also lock dues to pay. There is still a great deal of coasting traffic done in Great Britain, and many commodities of a bulky nature are sent from port to port, such as coal from Newcastle to London, iron plates from Middlesbrough to London, etc.

142.—**Air.** The aeroplane, as a means of transport, is still in its infancy: it is only useful, however, when expense must be sacrificed to speed, and as a goods carrier it is too expensive for general use.

Chapter XVI

THE FORWARDING AGENT

143.—**Necessity for Forwarding Agent.** With the highly developed conditions of modern times it is often very difficult for the wholesale merchant to discover the shortest, most convenient, and, at the same time, cheapest methods of transport, especially where supplies have to be received from abroad; in this case, the work involved in packing, drawing up of customs papers, arranging for insurance, the payment of various dues, and the execution of customs formalities calls for the consideration of a number of points. Few wholesale merchants undertake this work themselves unless they have within their business a special forwarding department which devotes itself exclusively to the execution of these matters. The majority of merchants, however, avail themselves of the services of a specialised middleman who, in return for a certain remuneration, takes over this part of the work from the shoulders of the merchant. In view of the frequent occurrence of this work, the business of the forwarding agent, as he is called, has developed into an independent commercial undertaking and has become especially important during the last few decades.

144.—**Functions of the Forwarding Agent.** The forwarding agent undertakes the transport of goods through carriers or shipowners in his own name, but for the account of consignors. The result is that the forwarding agent does not transport the goods himself, but only selects the particular carriers or shipowners to do the work. In this activity he has to exercise the diligence and care of an ordinary merchant and is responsible for loss due to his own negligence, or if he does not carry out the instructions of the consignor. As remuneration for his services he receives a commission which he is entitled to claim as soon as he has handed over the goods to the carrier or shipowner for transport. In addition, the cost of carriage and any other disbursement must be refunded to him, otherwise he has a lien upon the goods so long as he holds them in his possession or so long as he is able to dispose of the goods by means of a bill of lading or other document of title.

The forwarding agent acts as intermediary between the trader

who wants to transport goods and the carrier, using the latter term in its widest sense. From his office he directs the collection of the goods from the warehouse of the consignor, their transmission to the different intermediaries, and finally their delivery to the consignees. He frequently has recourse to the assistance of other forwarding agents in the case of a long voyage where the goods require to be transhipped. His experience of transport, his knowledge of railway rates and shipping tariffs, and his extensive relations make him a useful auxiliary to the trader as well as to the general carrier.

Nevertheless, mention may here be made of the fact that the most important transport companies endeavour nowadays to eliminate him by establishing direct relations with the consignors.

The liability of the forwarding agent to the consignor for loss or damage to his goods is exactly the same as that of the carrier. Where the carrier is liable for the damage, the forwarding agent enjoys in turn all the rights recognised as being due to the consignor.

Sometimes the forwarding agent charges up his outlay for the transport to the consignor and adds a percentage for his commission; at other times he quotes an inclusive price which, when paid, frees the consignor from any further liability. This second method is generally preferred by business men in so far as it enables them to calculate exactly the cost of the transport. For this purpose the forwarding agent will draw up *pro forma* invoices, which he sends to his clients in the form of offers of service.

The costs of transport are paid sometimes by the consignor in advance and sometimes by the consignee. In the latter case the forwarding agent does not deliver the goods to the consignee until his charges and commission have been paid.

When several intermediaries assist in the transport they hand over the goods from one to the other, at the same time passing on the charges, and the one who delivers the goods is responsible for their final payment.

Where the forwarding agent has frequent relations with a reliable business firm, he often opens an account current with it. Frequently the forwarding agent undertakes to collect in the name of the consignor the invoice price of the goods which he transports. In this case he may not deliver the goods except against payment of the receipted invoice which has been confided to him. This is known as Cash on Delivery (C.O.D.).

If in the course of transport the goods have to pass a frontier, the forwarding agent undertakes to carry out the customs formalities in the name of his customer. Generally it is the

forwarding agent who insures the goods confided to him, and this is often done on a floating policy.

Frequently a forwarding agent has, near his office, extensive warehouses where he stores, for a certain fee, the goods which have been entrusted to him. He delivers to his customer the warehouse warrant, which is transferable by indorsement, and the possession of which entails the right to dispose of the goods.

The forwarding agent receives his instructions either from the consignor or from the consignee, and therefore has to correspond with one or the other.

He is in continual relations with the carriers, railway and steamship companies, in order to obtain favourable rates of transport. He also carries on an active correspondence with the traders in the particular branch which he represents and who represent him. When he has prepared his tariff and has completed his arrangements, he offers his services to the customers either for transport in general or for a certain route, and the nature of his trade implies numerous claims and complaints. Finally, he is called upon to make out the various documents which accompany the shipments such as consignment notes, bills of lading, customs declarations, and insurance policies.

The most important, and at the same time the most lucrative part of the forwarding business is the so-called collective traffic or load in which the forwarding agent collects together a number of small consignments from the various commercial centres and combines them into one or more truck loads. He has then the advantage of contracting with the railway companies at the lower rates which are quoted for large quantities, and is thus enabled in most cases to charge lower rates than the sender would have to pay direct.

On arrival, the forwarding agent must subject the goods to minute examination and must at once establish any claims against carriers for damage, short delivery, or loss in transit. Unreasonable delay in presenting a claim may have the effect of relieving the carrier from liability, and in the case of the railways definite time limits have been fixed by certain rules, which have been adopted by the leading companies, and which have been upheld by the courts. When a claim arises the principal should be immediately notified and the forwarding agent should see that the proof for the condition of the goods is established by experts, otherwise he may be held liable for the damage arising through his own neglect. Where the goods are perishable so that it is impossible to obtain the instructions of the principal, or where the principal fails to instruct the forwarding agent, in time, the latter is entitled to have the goods sold by public auction for

account of the principal. If the consignee or the person entitled to receive the goods refuses to accept them the forwarding agent may warehouse them at his cost or he may place them in a public warehouse.

The business activity of the modern forwarding agent, however, is not restricted to the mediation of the transport of goods, for he also undertakes to procure all necessary papers such as consignment notes, mate's receipts, bills of lading, customs declarations, etc.; he attends to the warehousing and insurance of the goods against risks by land and sea, and in connection with this business he is frequently the agent for the insurance company; he frequently advances money on the goods shipped, and in some ports his forwarding business is frequently combined with the import, export, or commission business.

In large towns forwarding agents often combine to form a cartel in order to prevent the cutting of prices and also to facilitate the collection of grouped traffic. In recent years carriers have tended to take over the forwarding business, as in the case of some English railway companies, and have thus helped to reduce the costs of handling the traffic.

The forwarding agent, if he is to carry out his work efficiently, must acquaint himself with the regulations and tariff charges of the transport institutions whose services he enlists, and only by so doing can he conduct the traffic to the benefit of his principal and at the same time effectively safeguard his own interests.

Chapter XVII

INSURANCE

145.—**Scope of Insurance.** In these days it is possible to obtain insurance cover against risks of almost every description which can affect life, limb, health, and property. For a relatively small sum, called the premium, the various insurance companies will cover all risks, whether of mortality, accident, illness, fire, or the ocean; provided always that the insured conforms to the necessary conditions prescribed by the company.

The prudent exporter will be very careful to see that he is, by means of insurance, properly protected against the risk of loss which may occur by accident or damage at sea. It is not within the scope of this work to expound the principles and practice of marine insurance in all their ramifications, but an explanation of some of the terms used, and the points which are likely to arise in dealing with insurance in a merchant's office, may with advantage be given here.

146.—**Nature of Insurance.** Where several persons whose property is exposed to risk combine for the purpose of together bearing the loss which one or the other of their number may incur, this constitutes a Mutual Insurance Company. Each member is at the same time insured and insurer, seeing that, on the one hand, he will be indemnified should he incur a loss, whereas, on the other hand, he is obliged to help to pay the loss which another member may incur. The contributions paid into the common fund in order to meet any loss incurred can of course only be ascertained after the expiration of a certain period, and the share of each member fixed in accordance with the loss incurred. Where, for instance, the value of the property which is exposed to risk and for which the company may be called upon to pay amounts to £1,000,000, and if in the course of one year £10,000 of it has been destroyed, the loss incurred is one per cent. The person who has insured for £2000 apart from the establishment charges or cost of administration, would be called upon to contribute £20 towards the loss incurred. Since the person who incurs such a loss would desire to be indemnified as soon as possible, the premium is usually fixed in advance for a certain

period according to the probable loss which is calculated on an actuarial basis. In that case the members of the company undertake in the event of the loss exceeding the premiums paid, to make a supplementary payment, whilst on the other hand if the premium has been fixed too high, the excess is repaid in the shape of a dividend. For the prosperity of an insurance company, it is necessary to have the highest possible number of insured; once this aim has been attained, the Mutual Insurance Company under careful management offers the greatest imaginable security.

To-day insurance is conducted by Proprietary Companies in which the capital is subscribed by a body of shareholders, in whose interest the business is conducted. Both Mutual and Proprietary Companies are registered under the Companies Acts, 1908-17, or in some cases under the Assurance Companies Act, 1909, and there is thus no difference in their legal constitution, but merely in the disposition of the capital involved. In the Proprietary Company insurance is effected in return for a fixed premium, and the company makes a profit if the total amount of the loss repaid in addition to the cost of administration is below the total amount of the premiums received by them. Another form of insurance is the compulsory State Insurance against sickness, invalidity, and unemployment.

147.—**Marine Insurance.** The merchant insures his goods against the risks of loss during transport by land and sea. Marine insurance is the oldest form of insurance, and in its present form dates back to the Italians in the thirteenth century. In consideration of the payment of a certain percentage on value, i.e. the premium, the underwriters agree to indemnify the assured against loss or damage caused by certain specified perils, sometimes called "Perils of the Sea," but which would be more correctly described as "perils insured against," inasmuch as some of the risks covered are not sea risks at all. For instance, it was doubted at one time whether a marine policy covered land risk while the property insured was on shore, or whether it was only applicable to property whilst afloat. It has now been decided that when, either by known or agreed custom, or by terms of the policy, land is made part of the voyage, the cover applies to that part as well as to the other.

In addition to the insurance of cargo there is also the insurance of the ship or hull and also the freight. It is also permissible to insure the anticipated profit up to 10 per cent. In insuring the vessel the risk depends on the age and the particular construction of the vessel, the season during which the journey is undertaken, the part of the ocean which is to be traversed, the ability of the captain, the nature of the cargo, and at times also on political events which are beyond human calculation.

148.—**Kinds of Policies.** Marine policies are issued in various forms and may be briefly described as follows:—

Interest Policy. This is one which shows clearly that the assured has a real and substantial interest at stake, such as 100 bales of cotton or 20 bags of rice.

Voyage Policy. This is one in which the risk is defined by places, the subject-matter being insured for a particular voyage—as, for example, London to Melbourne.

Time Policy. This limits the cover to a specified period, such as 4 P.M. 1st January 1925 to 4 P.M. 1st January 1926. This form of policy is generally used in the case of hulls of vessels; though in some cases owners prefer to insure under a voyage policy for each separate voyage.

Valued Policy. This is one in which a certain value is inserted, but not necessarily the actual value; e.g. goods valued £2000.

Open or Floating Policy. This is one taken out to cover a series of shipments between two or more ports; therefore no name of any vessel is inserted in the policy. There is usually inserted, however, a limit to the value undertaken to be insured by the underwriters. The names of the vessels and the values of the insured interest are subsequently supplied to the underwriters on insurance advice notes. Floating policies are usually taken out by merchants and others having a more or less continuous flow of shipments between certain ports. The advantages to be derived are that the assured obtains a fixed premium rate for an agreed period of time, and is relieved of the trouble of taking out a new insurance policy for each shipment.

Wager or Honour Policy. This is one from the wording of which it is evident that the assured really has no strictly "insurable interest" in the property insured; or else that the underwriter is prepared to dispense with any proof of such interest. All such insurances are valueless in a Court of Law; nevertheless they continue to be executed, and as they are a record of an obligation of honour and not of law, they are often referred to as "honour policies." Such policies are usually marked "policy proof of interest."

149.—**Warranties.** As in all insurance contracts, the essence of a marine insurance policy is good faith on the part of both insurer and insured. If the insurer is aware that the thing insured is "an arrived ship" at the time of effecting the insurance, the premium can be recovered. The document is invalidated by fraud, concealment of any material fact, or by misrepresentation. There are also certain essential stipulations to all marine policies known as warranties. Once introduced into a policy, a warranty must be strictly complied with or the policy is rendered void.

In every contract of marine insurance there are two kinds of warranties, viz. :—

(1) *Implied warranties*, which are not expressed but are implied by law, e.g. :—

(*a*) In a voyage policy, that the ship is seaworthy at the beginning of the voyage.

(*b*) That the voyage will be completed without deviation, i.e. it must follow the usual course.

(*c*) That the venture is a legal one and will be carried out in a legal manner.

Although these implied warranties are not inserted in the contract, nevertheless they are all effective.

(2) *Express warranties*, which must be inserted or incorporated in the contract. These are usually :—

(*a*) To sail on a certain day ;
(*b*) That the vessel is safe at a certain time ;
(*c*) To sail with convoy (i.e. in time of war) ;
(*d*) That the ship is neutral ;
(*e*) That the goods are neutral.

Institute warranties, drawn up by the Institute of London Underwriters, intended to meet different circumstances such as meeting ice, or fire, etc., are sometimes added and may be attached to the policy by a gummed slip. Examples are :—

(i) Warranted not to enter or sail from any ports in North America except Halifax for coaling purposes.

(ii) Warranted not to enter the Baltic beyond 13 degrees E. Long. or sail from a loading port therein between 1st October and 1st April.

150.—**Method of Effecting Insurance.** When an insurance broker is requested by the owner of a ship or cargo to effect insurance, he makes out a slip or memorandum of the property to be insured, which is initialed by the underwriters or insurers as they accept the whole or part of the risk offered and they note the amount on it. If only a part or a line is accepted the broker proceeds to visit other underwriters until all risk is covered. A Covering Note is usually issued until a policy is ready. The policy itself is the definite expression of the insurance ; but the underwriters would probably pay claims on a vessel immediately after they had put their names on the slip and before the policy was issued. The vast amount of marine insurance is effected chiefly at Lloyd's, which is not a company, but an association of underwriters, each working as a separate unit. As an association it is particularly competent to effect marine insurance and to cope with intricacies involved, controlling as it does a world-wide organisation for securing information, for

classifying ships according to their seaworthiness and for *inspecting them.*

151.—**Lloyd's *v.* The Marine Insurance Companies.** The risk on a Lloyd's policy of insurance is undertaken by several insurers who each sign on the back of the policy, setting opposite their signatures the risk or line they take. The liability is joint and not joint and several, and an underwriter is liable up to the amount he signs for only, and is not liable for a sum due from another underwriter who makes default. This is a disadvantage to the assured, but he benefits by the lower rates obtainable at Lloyd's, whose members can quote lower rates owing to the greater distribution of the risk. Lloyd's constitutes a kind of club with members and subscribers; each policy is supported by the underwriters, who sign only, and the policy can in no way be enforced against Lloyd's as a whole in case of a claim.

An ordinary marine insurance company issues its own policy and is liable on it alone and for the full amount. Marine insurance companies are usually ordinary companies with limited liability. They have a board of directors and management, and the business is carried on in a manner similar to that of a bank. They usually issue their own policy, which is very similar to that of Lloyd's; and if the risk carried on one ship is too great, they promptly reinsure for the excess with another company. Old companies with large reserves offer very safe insurance, but newer companies are not in such a favourable position: their charges are usually higher than those of Lloyd's owing to the greater risk undertaken by themselves alone, but they settle claims as a rule more quickly, and covering is a shorter operation with them than at Lloyd's.

152.—**Marine Insurance Policy.** The form of marine insurance policy in general use is worded *in a very antiquated fashion.* It has to do services for insurances of every kind; and, if its terms do not exactly express the requirements of the parties, special clauses are attached to give effect to their wishes. Should doubt arise as to the meaning of the policy as a whole, these written clauses have greater effect than those in print, because they are the immediate terms selected by the parties; whereas the others comprise a general formula.

The policy which the underwriter is compelled to hand to the insured should specify:—

(1) The name of the assured.
(2) The undertaking to insure.
(3) The subject-matter insured.
(4) The voyage or period of time covered by the insurance.
(5) The amount insured against.
(6) The rate of premium to be paid.

(7) The conditions on which the insurance is undertaken.

(8) The name or names of the insurers.

From the specimen Cargo Policy on the inset opposite page 152 the following clauses should be noted:—

(1) The name of the party insured is "The London and Aberdeen Co-operative Company."

(2) "As well in their own name, etc."—This is inserted in order that if the policy be assigned, the assignee is duly covered.

(3) "Lost or not lost." These words are inserted in case the policy be required to cover goods insured after the vessel has set sail. In such a case the underwriter bears the risk of their having been lost when the insurance is effected.

(4) "At and from factory door to United Kingdom." This means that the risk runs from the time the goods leave the factory door until they leave the ship at a port in the United Kingdom.

(5) "Including coastal risk, etc." This clause means that the insurers are liable to pay any loss that may occur while the goods are being conveyed by boat to Wellington and also during their conveyance from the boat to the steamer *Ionic*.

(6) "In the sum of." Here is inserted the amount of the insurance followed by the particulars of the goods insured.

(7) "The adventures and perils which the Company is content to bear, are: Seas, Men-of-War, Fire, Enemies, Pirates, Rovers, Assailing Thieves, Jettisons, Letters of Mart and Counter-Mart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments of all Kings, Princes, and People, of what Nation, Condition, or Quality soever."

This clause signifies that the Company undertakes the risks of war, but, as these risks would necessitate an extra premium, it is usual in times of peace to exclude them by the insertion of the following clause at the foot of the policy:—

"Warranted free of capture, seizure, arrest, restraint, or detainment and the consequences thereof or of any attempt thereat (piracy excepted), and also from all consequences of hostilities or warlike operations whether before or after declaration of war."

This warranty, known as the F.C.S. clause, is made by the insured. In time of war this clause would, of course, be deleted and the extra premium paid.

(8) Barratry. This term means any fraud or wilful wrongdoing on the part of the master or crew, whereby the interests of the owners and/or charterers of the ship or goods are injured, e.g. setting fire to the ship.

(9) Memorandum. This is the clause at the end of the marine policy excepting certain goods, so as to protect the insurer from

small losses. In the policy under consideration it relates to cotton, tea, wool, and live stock.

(10) The York-Antwerp Rules are a set of rules drawn up with a view to making uniform the practice in regard to general average. These rules are generally adopted in contracts of affreightment, and underwriters usually agree by their policies to pay general average on the basis of these rules, if the adjustment is so made up.

153.—**Proximate Cause.** Before proceeding to analyse the various descriptions of claim which may arise under the policy, special attention should be paid to the fact that, in order to render the underwriter liable for a loss such loss must have been proximately caused by a peril insured against. The English practice in regard to claims is rather narrower than that of some foreign countries, and according to English Law the nearest cause only is to be considered; for where a result has been produced by a succession of causes, the last only must be looked at, and the others rejected. It may be easier to explain what is meant by examples.

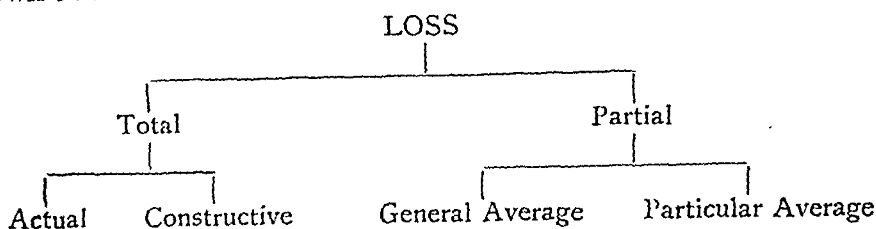
A cargo of oranges was insured, warranted free from partial loss or damage, unless such loss or damage was consequent on collision with any other ship. The vessel was in a collision during the voyage and had to put into port for repairs. It was found necessary to discharge the fruit into lighters, and subsequently reload it. When the vessel arrived at its destination it was found that the fruit was considerably damaged, partly by the handling involved in putting it into the lighters and reloading, and partly

Court decided that the loss was not recoverable. "The proximate cause of the loss," said Lord Esher, "was the handling of the fruit,

by rats. But suppose a rat gnawed a hole in the bathroom pipe on board a vessel, in consequence of which sea-water got into the hold and damaged the cargo, the proximate cause of the damage is sea-water. In such a case the underwriter is liable; the rat's partiality for lead pipe being rejected, the damage by sea-water would be considered as the proximate cause of the loss.

154.—**Claims for Loss.** The kinds of claim which may arise

under the policy of marine insurance are for total loss and partial loss. Total losses may be divided into "Actual" and "Constructive." Thus there are four kinds of losses which may be shown as follows:—



155.—**Total Loss.** Where a total loss of the goods insured has occurred, payment under the policy of the full sum of valuation insured has to be made by the underwriter. Total loss may be:—

(*a*) *Actual*, i.e. when no part of the subject-matter of the insurance remains, or when the state of the subject-matter is such that it ceases to be a thing of the kind insured, or when the insured is irretrievably deprived of the subject-matter insured.

(*b*) *Constructive*, i.e. when the subject-matter insured is justifiably abandoned because its destruction appears inevitable, or the expense of repairing the damage would not be justified by the result.

In order to substantiate a claim for total loss, a document is drawn up, if any of the crew are saved, called a protest, giving a detailed account of the casualty. This is sworn before a Notary or Consul. The invoice and bills of lading relating to the shipment have to be submitted to the underwriter as evidence that the goods were actually on board the vessel. In the case of a constructive total loss, the assured, in order to recover from the underwriter, must give to the latter what is termed *notice of abandonment*, which is a notice that he surrenders the property insured, or what remains of it, to the underwriter, and claims from him a total loss. In the event of the underwriter declining to accept the abandonment, the assured, in order to enforce his claim for constructive total loss, must issue a writ against the underwriter to recover the loss.

156.—**Partial Loss.** This may be either:—

(*a*) *General Average.* This includes all losses which arise in consequence of extraordinary sacrifices made, or expenses incurred, for the preservation of the ship and cargo, and must be borne proportionately by all who are interested. An example of such a sacrifice is the throwing of part of the cargo overboard in order to save the ship and the rest of the cargo. The essential features which give rise to a general average contribution are:—

(1) The sacrifice must be a voluntary one.
(2) It must be prudently made; for instance as regards expenditure, it must be fair and reasonable.
(3) The object of the sacrifice or expenditure must be the common safety of the ship, freight, and cargo.

When a general average sacrifice has been made, the underwriter who has insured the property so sacrificed is directly liable for the insured value and usually undertakes the collection of the general average contributions. When a case of general average arises, some one has to assess the loss as between the vessel, freight, and cargo. This work is usually done at the port at which the vessel calls in distress and is usually effected by two marine surveyors and an average adjuster. The former estimate *the damage and the value of the ship and cargo; the latter de*cides whether the damage is general or particular—and allocates the sums proportionately between the vessel, freight, and the various cargo owners for general average.

(*b*) *Particular Average.* This means any loss other than a general average loss, caused by a peril insured against; e.g. damage to goods by sea-water. Such a loss is not incurred as the result of a sacrifice for the benefit of all parties and therefore it falls on the owners of the property or on the underwriters if the property is insured.

157.—**Fire Insurance.** On importation goods are frequently warehoused and in that case they should be insured against fire. Where the documents referring to the imported goods are in the hands of a banker, he will call upon the consignee to insure against fire, and should the latter fail to do so, the banker may himself insure the goods and charge the premium to the consignee.

Insurance against fire is a contract to indemnify against loss by fire; the compensation obtainable is therefore limited to the actual amount of loss suffered by the assured. Nothing beyond that can be recovered from the insurer, the amount named in the policy being the limit, not the measure of loss. The policy is usually for one year, and is renewable annually in return for the payment of the premium.

The insured must have an insurable interest in the property insured, but any existing right or interest will amount to such an interest, i.e. he must be in such a position that he suffers loss by the damage or destruction of the property. In this respect fire insurance differs from life insurance, for in the latter case the interest may cease to exist shortly after the policy has been effected.

Every attention must be paid to the conditions of the policy, as any failure to comply with them may render the insurance void. For instance, any alteration in the nature of a risl

occupation of a building by a carpenter instead of a baker, change of tenancy, or additions to premises, must be notified immediately to the insurance company, and the premium adjusted if necessary.

158.—**Life Assurance.** The primary object of life assurance is to make provision for the one inevitable occurrence—death. A very poor man will insure his own life and the lives of his wife and children in order that when death arrives neither he nor his family may occupy a pauper's grave. He may also insure, for the same purpose, the life of a person where a moral obligation would make him wish to save that person from a pauper's grave also. A richer man would insure his life in order to make sure of a competence for his widow and children at his demise.

In business also, life assurance plays an important part. For instance, a well-known and much-advertised furniture firm gives free fire and life insurance policies to its credit customers. Thus, if the debtor dies, the firm is assured of its unpaid balance, and if the furniture is burnt neither party suffers loss. The making of a loan is usually accompanied by the taking out of a life assurance policy. Likewise a policy once taken out may be made the subject of a sale or rather an assignment. Again, in the case of a partnership, on the death of a partner either the partnership is dissolved and liquidation of the assets takes place or the surviving partners combine to pay to the executors of the deceased the amount due to him on his share of the business; or, possibly, a new partner is found. In any case much trouble may be avoided if an assurance policy of the life of each partner to the value of his holding is taken out.

Sometimes where an official of peculiar worth or skill is employed his firm will take out a policy on his life in order to counteract the loss which may be incurred by the dislocation of business consequent on his death.

159.—**Other Insurances.** A prudent business man will, in addition to the above insurances, see that he is insured against such losses as those payable under the Workmen's Compensation Acts, which provide for compensation for employees who are killed or injured while at work; and also for those due to burglary, larceny, etc. Where motors are used, these should be insured, and provision may be made against any claims which may arise through accidents. Insurance may be made against loss of profits due to any unforeseen cause and against almost any other risk that can be imagined.

ABBREVIATIONS USED IN FORWARDING AND INSURANCE

a.a.r.	against all risks.	L.C.	label clause.
A.H.	after hatch.	ldg	loading.
a/or	and or.	L.I.P.	life insurance policy.
A.P.	additional premium.	M/C	metalling clause.
A/R	all risks.	M.H.	main hatch.
arr.	arrival.	M.I.P.	marine insurance policy
bdl.	bundle.	M.M.	mercantile marine.
B/L.	bill of lading.	M/R	mate's receipt.
b t.	berth terms	N.R.	no risks.
C & D.	collection and delivery.	O.P.	open policy.
C.C.	continuation clause.	O.R.	owner's risk.
Cert.	certificate.	P.A.	particular average.
C/P.	charter party.	P.D.	port dues.
c.p d	charterers pay dues	p p.	picked ports.
C.R.	carrier's or company's risk.	P.P.I.	policy proof of interest.
Dbk.	drawback.	R.C.H.	railway clearance house.
D/C.	deviation clause.	R.D.C.	running down clause.
Dd.	delivered	R.I.	re-insurance.
D/O.	delivery order.	s.	sailing ship.
d/w	deadweight.	S/N	shipping note.
D/W	dock warrant.	s.p.d.	steamer pays dues.
entd.	entered.	s.s.	steamship
exd.	examined.	S. to S.	station to station.
f.a.a.	free of all average.	s/y	steam yacht
F.C. & S.	free of capture and seizure.	T.L O.	total loss only.
f.g a.	foreign general average.	Tonn.	tonnage
F.L.N.	following landing numbers.	T.R.	tons registered.
F.O.B	free on board	U/a.	underwritten account.
F.O.W.	first open water.	U.K.	United Kingdom.
F.p a.	free of particular average.	U.S.A.	United States of America
F/P	fire policy.	U/w.	underwriter.
F.T.	full terms.	W.O.B	washed overboard.
G.A.	general average.	W.P.	without prejudice.
H.C.	held covered.	W/W	warehouse warrant
Insce.	insurance.	Y.A.R.	York-Antwerp rules.
instns.	instructions.		

Chapter XVIII

WAREHOUSING OF THE GOODS

160.—**Receipt and Examination of the Goods.** As a rule, the supplier notifies the purchaser of the shipment or dispatch of the goods ordered by means of an *advice note,* which is usually accompanied by the invoice.

On the arrival of the goods at their destination, they must be examined carefully with a view to ascertaining whether any damage has arisen during transport, i.e. any external visible defects, before taking delivery. After receipt, the internal condition of the goods must be examined as soon as possible in order to discover whether the goods conform in quality to the samples on the basis of which they were ordered. The patterns or samples must therefore be carefully preserved until this examination has taken place. At the same time the invoice must be checked in order to establish whether the measure or weight invoiced agrees with the actual figures.

If the goods are in accordance with the order, the buyer is compelled to accept them. Should there be any discrepancies, he must notify the sender of these immediately, but in the meantime he must take proper care of the goods. Where shortcomings reveal themselves later on they must be notified to the seller immediately after their discovery, but the time limit within which any claims may be made is usually stipulated by the seller. This stipulation, however, is only valid if the buyer agrees to it or if he does not raise any express objection. Where the defects are so serious that the buyer is unable to offer the goods to his customers, he may withdraw from the contract and place the whole consignment at the disposal of the sender. The seller is then compelled to take back the goods and to refund any purchase money which may already have been paid. Where the goods are of a general nature, the buyer may demand the exchange of the goods for articles which conform to his order. Instead of requesting the exchange of the goods the buyer may ask for a reduction in the price. In the case of slight deficiencies in the quality, the buyer will probably retain the goods on the promise of the corresponding reduction in the price. As a rule it is advisable to have the defects of the goods certified by experts.

A discreet trader will avoid taking advantage of every available opportunity for raising objections and making claims. Any one who does this will soon acquire the reputation of a trickster, and no one will care to do business with him. Moreover, a trader should always be polite and moderate in his claims, in spite of the fact that this is a rule frequently ignored in practice.

161.—**Warehousing the Goods.** Although the trade of the pedlar does not call for a fixed warehouse, that of the ordinary retail shopkeeper cannot very well do without one in whatever business he may be. On the other hand, the wholesale merchant can warehouse his goods in public warehouses, bonded warehouses, etc.

The arrangement of the warehouse is usually determined by the nature of the goods in which a merchant deals, but in all cases the primary object should be to ensure the good preservation of the goods. Where a building is being erected in which it is intended to include one or more shops, provision is usually made for the necessary store-rooms; if, however, an existing building is converted into shops, the necessary storage accommodation is frequently overlooked. Moreover, in large towns the high rents often make it impossible to allow of large store-rooms.

The need for the maintenance of a large stock is not so important to those retailers who have their suppliers in the immediate vicinity as it is to those who must procure their supplies from a distance; again, [illegible]
there is not the [illegible]
case of goods whi[illegible]
nesses whose commodities bear a uniform character, such as stationery, piece goods, etc., need less storage accommodation than those in which there is a great variety of different articles. For instance the storage of groceries and drugs is very difficult, since the various kinds of articles call for different treatment. Some must be kept dry and well-ventilated and others damp; a high smelling or pungent article must not be stored along with goods which absorb these odours easily. Poisons, explosives, and inflammable goods require special protection which must be carried out in accordance with prescribed legal regulations In large firms there is usually a special warehouse staff with a special knowledge of the conditions necessary for the proper storage of goods.

The stock-room must be kept in good order and should be scrupulously clean. It must be secured against thieves by strong doors and barred windows, and any pilferage by the staff should be prevented by the personal control of the principal with the assistance of well-kept stock-books.

The trader may cover himself against any possible unexpected losses by means of insurance. Thus, no conscientious and careful principal would omit to insure the whole of his business premises, including his warehouse, against the risk of fire. It is also advisable to insure the warehouse against burglary and damage by water, especially where water pipes run through the stock-rooms.

The wholesale merchant may find it necessary for a long time to keep in stock large quantities of goods unsold, especially where prices have fallen so low that a considerable loss would be incurred in the event of an immediate sale. Under these circumstances he will probably wait until prices rise again, and in the meantime the goods will be stored in suitable warehouses.

162.—**Public Warehouses.** The system of warehousing which has grown up in the large commercial centres and ports is of great convenience to merchants and traders. The treatment of goods, whether free or dutiable, is facilitated in the way of sorting, bulking, and sampling, and the warehouse forms a convenient place for the inspection of goods by intending purchasers.

Bonded warehouses are those in which goods liable to customs or excise duties are allowed to be stored, and such goods are not to be removed till duty is paid on them. The Government authorities have to be satisfied as to their construction, and no one, not even the licensee, can enter them without the representative Customs Officer. The proprietors, or licensees, are responsible for the safety of the bonded goods, and for the duty payable thereon. There are different kinds of bonded warehouses, such as:

(1) General warehouses, which are used for warehousing different classes of goods for clients.

(2) Private warehouses, which are used solely for the storing of goods which belong to the proprietor of the warehouse.

(3) Specialised warehouses for the storage of particular commodities such as tea, wines and spirits, tobacco, etc.

Goods are only allowed to leave the import wharf for the selected bonded warehouse by a licensed cart or lighter, and a receipt is given by the carrier. A "cart note" accompanies the goods to bond and is handed to the locker. When all the goods for which the entry has been passed have been received, a delivery book, which is made out by the landing waiter, showing the number of packages forwarded, is handed to the bond proprietor for signature.

163.—**Warrants.** When goods are warehoused in a public warehouse, the owner receives in return a document which is called a "warrant." This contains a description of the goods, an acknowledgment of the receipt of them, and a statement that they are deliverable to the owner or to his order. This document is a

document of title to the goods specified therein, i.e. it represents proof of the possession of the goods in question, and the holder may transfer his right to the goods by indorsing the document and handing it over to another person. The owners of the warehous[illegible] the presentation [illegible] dock warrant is as [illegible] being so, the holder may borrow money on its security, or sell it, the property in the goods passing to the buyer.

When any portion of the goods mentioned in the warrant are sold, and delivery required, the warrant must be presented to the dock company or wharfinger warehousing the goods, and the particular parcels taken away will be indorsed on the back of the warrant as delivered. When the balance of the goods covered by the warrant is required, the warrant is surrendered to and retained by the warehouse-keeper.

164.—**Duties of the Warehouse-Keeper.** As agent of the person storing goods with him, the warehouse-keeper is compelled to notify his principal of the delivery of damaged goods and to safeguard the rights of his principal as against the carrier or shipper. He is responsible for loss or damage to the goods under his control unless such loss or damage could not have been avoided by the exercise of reasonable precautions. He is only obliged to insure the goods if he receives special instructions to do so from his principal. Should any change take place in the goods giving rise to the fear of their depreciation, the warehouse-keeper must immediately notify the principal of the fact. The examination of the goods, the drawing of samples, and other necessary actions must be permitted to the principal during ordinary business hours. For his services the warehouse-keeper receives the customary warehousing rent as well as payment for any special treatment of the goods during the warehousing period. For the cost of warehousing the goods the warehouse-keeper has a lien upon them so long as they are in his possession or so long as he has the right to dispose of them by means of a bill of lading or other document of title.

Chapter XIX

SETTLEMENT OF THE ACCOUNTS

165.—**When Payment to be Made.** If the buyer has accepted the goods, he is obliged to pay the pre-arranged purchase price. This payment takes place either on delivery, in advance, or after the delivery of the goods. In regard to payment the place of fulfilment is the residence or place of business of the seller. The buyer may pay in cash, or he may receive credit. In some cases the prices at which goods are offered are credit prices, that is, the interest for the credit allowed is included in the price of the goods. If in such a case cash is paid, the buyer is entitled to a deduction which is called *discount*. The amount of this discount and the time allowed for a cash payment is determined either by the pre-arranged conditions of sale or by business usage. Thus the usual terms of payment are:—

C.O.D.—Cash on Delivery, which signifies that the buyer will pay the price of the goods to the carrier on delivery.

Prompt Cash, which implies that payment will be made within two or three days after delivery of the goods, no discount being allowed.

Cash, Net Cash, or Ready Cash, which means payment within about a week, without discount.

2½ per cent. for Cash, which denotes that 2½ per cent. discount will be allowed off the invoice price of the goods, if payment be made within about a week from date of delivery.

5 per cent. within a month, which means that a discount of 5 per cent. will be allowed off the invoice price of the goods, if payment be made within one month from date of delivery.

Three months net, which signifies that payment must be made on or before the expiration of three months from the date of delivery, and that no discount will be allowed.

Prompt Cash less 4 months 5 per cent., which denotes payment within a day or two less 4 months' interest at 5 per cent. per annum.

According to the means at his disposal, or the conditions prevailing in the money market, the trader will choose either one or the other method of payment, and the honest trader will adhere precisely to the terms of payment which he selects. In most cases the wholesale merchant is obliged to sell on credit, because

his customers as a rule can only pay after they have sold a large part of the goods. In his endeavour to secure a large turnover, however, the wholesale merchant should be careful not to give excessively long credits, for by this means he induces the retailer to buy beyond his means, and to be careless with the money he receives before the time for payment arrives. It is generally unwise to grant more than three months' credit.

When granting credit it is advisable for the wholesale merchant to take great care, for this is really a duty of self preservation. Hence he ought to examine the financial status of his debtor, and if he is unable to do this himself he should entrust the inquiries to a business friend, a bank, or, better still, to an inquiry agency or trade protection society.

166.—**Legal Tender.** The most satisfactory method of payment is by means of legal tender. This consists of such money as a creditor is obliged to receive in discharge of a debt due to him and expressed in terms of money of the realm. It includes gold coin to any amount, silver in amounts not exceeding 40s., and copper in amounts not exceeding 1s. Bank of England notes are also full legal tender in England. The new issue of £1 and 10s. Bank of England notes is legal tender in Scotland and Northern Ireland as well as in England.

167.—**English Coinage.** The English coinage system is based on the gold sovereign. This coin consists of 123·27447 grains of gold $\frac{11}{12}$ths fine, the alloy consisting of copper. Other gold coins are issued, the only one of importance being the half-sovereign. A remedy allowance for fineness is permitted up to two parts in a thousand. A remedy allowance of two grains for weight is allowed in a sovereign, and ·15 grains in a half-sovereign. The weight of the sovereign is not allowed to fall below 122·5 grains, and coins which have worn down below this weight are called in and melted down; the loss thus occasioned falls on the State. By the Coinage Act of 1889, gold coins issued prior to 1837 were called in, and by the Act of 1891 power was vested in the King by which he may call in by proclamation coins of any period subsequent to 1891.

The coinage is free and open as regards gold, the standard value of which is £3, 17s. 10½d. per ounce, at which rate it is coined for the person offering it to the Royal Mint. Gold money is legal tender to any amount whilst the token coinage consists of silver and copper coins. These token coins are worth more as coins than their value as bullion. They are necessary because gold is too expensive for small coins; these token coins retain their exchange value, because their issue is strictly limited to the amount required by the nation for small change. On account of the high

price of silver, a new silver currency was issued in 1920, which is composed of an alloy of silver and nickel in equal quantities. It will probably wear better than the previous issues, and at the same time be less expensive to the State.

168.—**Bank Notes.** These are promissory notes issued by the Bank of England payable on demand. The lowest allowed to be issued in England is for 10s., and the highest £1000. The advantages of bank notes are :—

(1) Since they are legal tender, they are generally acceptable.
(2) They are accepted where a cheque might be rejected, e.g. at a hotel.
(3) They can be sent through the post.

169.—**Treasury Notes.** These were first issued by the Treasury in 1914 to meet the increased demand for currency during the War. The notes were backed by Government security, and were subject to Government control although actually issued by the Bank of England. The Currency and Bank Notes Act, 1928, however, transferred the right of issue to the Bank of England, which now controls the whole currency system of the country. To make this legally possible the Act increased the Bank's right to issue notes backed by securities only to £260,000,000, and any amount of notes issued in excess of this must be backed by gold.

170.—**Credit and its Functions.** If all dealings and all payments could be effected by means of a credit system much trouble and loss might be avoided and much time saved. If at the present time no credit system existed, a payment of £1000 made by a London merchant to a Glasgow merchant would have to be effected by an actual delivery of gold. This gold would have to bear transport charges and insurance, thus adding to the cost of the transaction. Furthermore, the rapidity of circulation would be greatly lessened. The supply of gold would prove vastly insufficient, and trade and industry would languish for lack of capital. What actually happens is that a credit instrument is forwarded, and sooner or later the amount of £1000 is deducted from the banking account of the London merchant and added to that of the Glasgow merchant.

The use of credit in such a case, therefore, results in economy of coinage, economy of working expenses, and perhaps economy of time. An equally important function of credit lies in the financing of industry and trade. Practically all firms extend credit to their clients either by not insisting on prompt settlement or by accepting in lieu of cash a bill of exchange or a promissory note. In this way firms can operate with a smaller capital than would otherwise be necessary were no credit granted. This indirect financing of firms by other firms leads to a further function of credit—the direct

financing of industry and trade by the banks and other financial institutions.

171.—**Bills of Exchange.** In commercial intercourse the settlement of debts by means of bills of exchange plays an important rô[illegible] to accept drafts, the seller imposes t[illegible] adhering to the arranged terms of [illegible] opportunity of using the bill of exchange as a means of payment, or he can convert it into money by discounting it with the bank.

Any unconditional order in writing which is :—

(*a*) Addressed by one person to another;
(*b*) Signed by the person giving it;
(*c*) Requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time;
(*d*) A sum certain in money;
(*e*) To or to the order of a specified person or to bearer—

constitutes a bill of exchange.

If any instrument does not comply with these conditions, or orders any other act to be done in addition to the payment of money, it is not a bill of exchange, e.g. “ Pay John Brown £50, and deliver to him 20 bushels of corn.” A statement of the transaction which gives rise to the bill, or an indication of the particular account to be debited, or the rate of exchange to be used, would not make the order conditional.

172.—**Form of Inland Bill.** The law distinguishes between an inland bill and a foreign bill. The former is a bill drawn and payable within the British Islands, or drawn within the British Isles on a person resident therein; all other bills are foreign bills. No particular form is necessary, but the following is usual :—

£500 CARDIFF, *20th May* 1924

Three months after date pay to Messrs. JONES & Co the sum of £500, value received.

5/- Stamp.

For and on behalf of
JOHN BROWN & SONS, LTD,
H. WATKINS.
Manager

W. R. THOMAS, ESQ.
Newport

From the above will be seen that there are three parties to a bill of exchange, viz. :—

(1) The *drawer*, i.e. the one who makes out the bill; in the example given, Messrs. John Brown & Sons, Ltd., who are the drawee's creditors and the payee's debtors.

(2) The *drawee*, i.e. the person on whom the bill is drawn; in this case, W. R. Thomas, Esq., who is the drawer's debtor.

(3) The *payee*, i.e. the person named on the bill to whom the money is to be paid; in the example Messrs. Jones & Co.

The drawee and payee are not parties in the legal sense until they have signed the bill, i.e. in the case of the drawee—accepted, and in the case of the payee—indorsed, the bill. After this, they become acceptor and indorser respectively, and are parties to the bill in the strict legal sense.

The amount of the bill is usually stated both in figures and in words in the body of the bill. If the amounts do not agree, the amount expressed in words governs the bill.

The bill must be payable at a fixed or determinable period after date or sight; it cannot be made payable on the occurrence of an event which is not certain to happen; e.g. marriage, or the arrival of a steamship. Moreover, the bill is not invalid by reason that it is undated, ante-dated, post-dated, or dated on a Sunday. The holder of an undated bill may insert what he believes to be the true date at any time.

173.—**Stamp Duty.** All bills drawn in the British Isles which are not payable on demand or within three days after date or sight must be provided with an embossed stamp before they are signed. Any person dealing with a bill not properly stamped is liable to a penalty of £10. The stamp duties are as follows :—

Bills payable on demand, or within three days after date or sight, for any amount	2d.
All other bills when the amount does not exceed £10 .	2d.
When the amount is more than £10 but not more than £25,	3d.
,, ,, ,, £25 ,, ,, £50,	6d.
,, ,, ,, £50 ,, ,, £75,	9d.
,, ,, ,, £75 ,, ,, £100,	1s.

For every additional £100, or a fractional part of £100, an extra 1s. must be paid.

174.—**Acceptance and Indorsement.** Acceptance of a bill is the drawee's signification of his assent to the drawer's order. No special form is necessary, but the acceptance must be written on the bill, and be signed by the drawee. Usually the word "accepted," with the drawee's signature, is written across the

face of the bill. A bill should be presented for acceptance as soon as possible after receipt; this is particularly important in the case of bills drawn "after sight." The presentation for acceptance must be during business hours; in London it is customary to leave the bill on one day and to call for it on the next. Presentment through the post, however, is sufficient if agreed upon, or if authorised by custom. The acceptance may be general or clean, i.e. when the drawee accepts without qualification to the order of the drawer; or it may be qualified, i.e. when the accepter makes conditions, agrees to pay only part of the amount, or changes the date when due. The holder of a bill may refuse to recognise a qualified acceptance, and treat the bill as dishonoured. Bills are transferred by indorsement, which is evidence of negotiation and of payment. Any indorser is liable to pay the bill to any subsequent holder, should the accepter not pay at maturity. If an indorser wishes to avoid responsibility, he must add after his name "*sans recours*," or "without recourse to me." Should the bill not be large enough for all the indorsements, a slip of paper called an *allonge* is attached to it, the first signature on the allonge being so written that half of it appears on the bill itself and half on the allonge.

175.—**Payment.** Three days, called "days of grace," are added to the period of all bills, other than those payable at sight or on demand, or not more than three days after date or sight, or on which the due date is definitely stated as fixed, and a bill on which days of grace are allowed is payable on the last day of grace. Where the last day of grace falls on Sunday, Christmas Day, Good Friday, or a fast day, the bill is payable on the *preceding* business day. Where the last day of grace falls on a bank holiday or on a Sunday, the previous day being a bank holiday, the bill is payable on the next succeeding business day.

176.—**Dishonour.** When a bill is refused acceptance or payment, it is said to be dishonoured. The holder of the bill should give notice of the dishonour immediately to the drawer and each of the indorsers, otherwise he loses his claim on them for payment. It is, however, usual for the holder merely to notify the person from whom he received the bill, who in turn notifies the preceding indorser, and so on, until all have received notice. It is usual to "note" an inland bill in addition to acquainting the parties, and it can also be protested, though it is not legally necessary to do either. A foreign bill must be noted and protested, if the holder wishes to retain his rights against the drawer and the indorsers. The noting is done by a notary public, who writes on the face of the bill the facts of the refusal to accept or pay together

with the date, the reference number in his register, his charges and initials, and this is accepted as evidence that the bill has been duly presented. The protest is a certificate attesting the dishonour of the bill, generally made by a notary, but in the event of a notary not being available it can be made by any respectable householder in the presence of two witnesses. After protesting, a re-exchange account is made out debiting the original drawee with expenses, losses, and a new draft is drawn on him for the amount, or such other action taken as is deemed necessary in the circumstances.

Where a bill has been dishonoured by non-payment, a party not already liable may pay for the honour of the drawer or indorser. On most foreign bills the phrase, " In need with Messrs. . . . . . . for the honour of . . . . " is to be found, and where a foreign bill contains several indorsements it will sometimes bear several names *in case of need*.

177.—**Accommodation Bills.** Bills are often drawn, accepted, and put into circulation, without any consideration having been received. Such bills are called " accommodation bills," " kites," and " windmills," and the parties to them are known as " accommodation parties." If no value has been given, no one is liable to pay the amount of such a bill, but if in passing from hand to hand, value is eventually given, a holder for value can sue any of the signatories, even though he knows that the bill was originally an accommodation bill.

178.—**Promissory Notes.** In the Bills of Exchange Act a promissory note is defined as " an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money to, or to the order of a specified person, or to bearer."

Promissory notes are negotiable instruments, and most of the regulations applying to bills of exchange also apply to them. The usual form of a promissory note is as follows :—

LONDON,
24th May 1924.

[5/-]

£500

Three months after date I promise to pay Messrs. JOHN BROWN & Co., or order, the sum of Five hundred pounds for value received.

WILLIAM JONES.

Promissory notes differ from bills of exchange in the following respects:—

Promissory Note.	Bill of Exchange.
(1) A note has two original parties—maker and payee.	A bill has three—drawer, drawee and payee.
(2) The maker of a note is the principal debtor, and corresponds with the accepter of a bill.	The drawer of a bill is only secondarily liable.
(3) A note is a promise to pay.	A bill is an order to pay.
(4) Notes cannot be drawn in sets.	Bills may be drawn in sets.
(5) All promissory notes must bear *ad valorem* stamps.	Bills take the 2d. stamp duty when they are payable on demand, or not exceeding three days after date or sight.
(6) Notes are never accepted—there is no drawee.	Bills are accepted.
(7) Makers of a note may be liable jointly, or jointly and severally, according to tenor.	Accepters of a bill (if more than one) are liable jointly.
(8) Foreign notes do not require protesting.	Foreign bills require protesting on dishonour.

179.—**Cheques.** Where a merchant has opened an account with the bank, he can leave to the banker the keeping of the whole of his financial transactions; he may send to the bank at certain intervals all the liquid funds in his possession, and may give to the bank his bills to be credited; he instructs his customers to pay to the bank instead of to himself, and he does not run the risk of losing money by theft, fire, or fraud, and he also avoids the risk of receiving counterfeit money or incorrect amounts. When he desires to make payment he instructs his banker to do this for him by giving to his creditor a cheque, the amount of which will be paid by the banker so long as there is a balance standing to his account. Cheques, like bills of exchange, probably originated in Italy, but they have assumed their present-day importance in England and in the United States as a result of their convenience and general usefulness in transmitting money with a minimum of trouble and expense.

Chapter XX

SALE OF THE GOODS

180.—**Fixing the Selling Price.** Before a trader sells his goods, he must calculate the price which he has himself paid, and must on this basis fix the selling price.

The total cost is composed of the purchasing price and all other expenses. These are of two kinds, viz. :—

(*a*) General expenses, which have to be taken into consideration in the case of all goods ; and

(*b*) Special expenses, which are incurred in addition to the general expenses.

The general expenses consist of :—

(1) Interest on the trader's own or borrowed capital which is invested in the business.
(2) The rent for his shop and warehouse.
(3) Lighting, heating, and cleaning the business premises.
(4) Salaries and wages of the staff, including national insurance contributions.
(5) Rates and taxes.
(6) Insurance premiums for the shop and warehouse.
(7) Depreciation.
(8) Bad debts.
(9) Advertising.
(10) Petty expenses.

Special expenses which may arise in some cases are :—

(1) All expenses of transport in cases where the purchaser buys the goods ex warehouse. This would also include transport insurance, commissions to forwarding agents, and warehouse rent.
(2) All Customs duties and other dues to which the imported goods are subject.
(3) The expenses incurred by the special treatment of the goods during the period of warehousing, and
(4) The expenses of the delivery of the goods by messengers or vans.

A trader must recover all these prime costs in the selling price of his goods ; however, he cannot content himself with simply recouping his outlay, for in that case all the benefit he would receive

would consist in the interest on his capital without having anything for his labour. There must, therefore, be an amount added to the prime cost for this work and also for the risk which the owner of a business continually incurs which is called net profit—an item which in former times was considerably higher than it is now owing to the fact that competition has forced down prices. This profit is not equal in the case of all goods nor in the case of all businesses. A trader must sell some articles at certain times without any profit in order to entice customers: the losses on such goods must naturally be made good by an increased rate of profit, or by an increased turnover on others. In the case of goods which are turned over slowly, the rate of profit must be higher than in the case of those which sell quickly. Hence the rate of profit on goods of daily consumption is smaller than on articles of luxury on which the rate of profit is sometimes as much as 100 to 200 per cent.; in the latter case the burden of the increased price falls upon the rich, but in the former it is largely on the poor. Articles of fashion usually demand a high rate of profit because, owing to the frequent change of fashion, there is a danger that a portion of the stock will remain unsold, or will have to be sold with a large rebate.

If a trader is to exist he must earn, and in order to earn he must know how to ascertain the selling price of his goods. The calculation of the selling price, or costing as it is sometimes called, constitutes the basis of business success—a fact which is sadly neglected by many business men. There are many people who start in business without having the necessary commercial training and are therefore quite incapable of making a correct calculation of prices; they either sell according to the prices of their competitors, or they allow the wholesaler who supplies them to fix the selling price, or, lastly, they take the purchase price and simply add an arbitrary amount for profit. This suicidal method of some retail traders exerts great injury to whole branches of trade because it often forces the skilled trader, who knows how to estimate his prices, to be satisfied with a rate of profit which is no longer remunerative.

Since the general expenses remain practically the same, at least for a long period, the calculation may be simplified by adding a certain percentage, based upon experience, to the purchase price of the goods in the form of *establishment charges*. As soon as there is a change in the expenses, however, a new estimate will have to be made.

181.—**Pricing the Goods.** If the selling price of the goods has been determined, it is written upon labels or pieces of cardboard which are attached to the goods. Even in the grocery

business prices are now usually affixed to the goods. Although in his daily routine the seller obtains such memory practice that he can easily recall the prices of the goods (coffee, tea, sugar, rice, etc.), yet it is possible, especially in small price fluctuations, for mistakes to arise to the disadvantage of the consumer or the trader. It is therefore advisable that grocers should also price their goods either by attaching tickets to the cases, sacks, and bottles, or by drawing up lists which are hung out in various parts of the shop, and which are accessible, not only to the seller, but also to the customer. Unfortunately many retail shopkeepers still treat the selling price of their goods as a secret, and express it, not in figures, but in secret signs which are only understood by the staff. Such a method is neither necessary nor useful; it is antiquated, and it is therefore time that traders should abolish the system. It is also just as necessary that the trader should only have one price. Here and there it is still customary to have two sets of prices—one for the regular customers, and another for the occasional ones. Sound business methods demand equal treatment for all customers and therefore one price only, which should be a firm price.

182.—**Sale for Cash.** In the sale of goods a trader sometimes sells for cash and sometimes on credit. Whereas in the wholesale trade credit is the more frequent form, it ought to be a principle in the retail trade that goods are only sold for cash: for this is in the interest of the trader as well as of the customer. In this way, the trader is able to keep his capital intact; he does not distribute it into numerous small outstanding debts which bear no interest, and he is in a position to discharge punctually his liabilities to his suppliers. The customer is prevented from getting into debt by the fact that he has to pay cash for his purchases, and is thus trained to economise. Departmental stores, co-operative societies, mail order businesses, as well as the majority of large shops, insist strictly upon cash. The retailer who pretends he must give credit for fear he should lose his customers possesses an unsound business, for his customers are generally people who have refused to be served in shops where cash is insisted upon. The financially unsound position of many retail traders is due largely to the facility with which they grant credit.

There are certainly exceptions where the granting of credit is advisable, as, for instance, in the case of temporary unemployment, during the illness of an otherwise trustworthy person, to regular customers who are out on strike, etc.; but even in these cases, the trader ought to ensure that the credit which he extends is in proportion to his customer's capacity to pay.

Where a customer takes goods regularly from the same firm, he frequently has a monthly or weekly account. This method is

adopted, as a rule, by workmen and officials who are paid weekly or monthly, and by hotels which find it inconvenient to charge for every trifle at once. In large towns this method of payment is also usual with firms who take orders at the door and send the goods home.

Business intercourse of this nature calls for careful account keeping. The trader keeps a rough book in the shop in which he enters all goods sent or sold to regular customers and also their payments. All the money the trader takes in his shop goes into the till, which is emptied and counted every evening; this represents the daily takings. These daily takings a trader enters into his cash book; large firms do this daily, but others who have small daily takings only enter them weekly.

If the sale is carried out wholly or partly by the staff, the proprietor of a shop must take measures to control the staff. For smaller firms, it is sufficient to have cash registers which give a receipt for the amount of the purchase, and at the same time register it in an interior compartment to which the principal alone has the key. When taking out the daily takings the amount must tally with the total of the amounts registered.

In businesses with many salesmen there is usually a pay-box. Each salesman receives a cash-block, on the individual vouchers of which there are figures and numbers, so that it can be ascertained at any time who has served the customer. The amount of the purchase is written down on both parts of the voucher, the upper one remains in the block, and the lower one is handed to the purchaser, who takes it to the pay-box and pays. After closing-time the cashier adds the vouchers, and the amount must tally with the money in the till, and also with the totals of the blocks of the salesmen.

In the wholesale trade it is impossible to insist in all cases upon payment in cash. Cash transactions are the exception rather than the rule. When entering into business relations with a new customer, or when delivering to customers concerning whose financial standing there is a doubt, it may be advisable to insist upon "cash on delivery," or even on "cash in advance." These are exceptions, and the rule in the wholesale trade is business on credit.

183.—**The Granting of Rebates.** On the one hand, in order to meet the competition of co-operative societies who distribute dividends periodically among their members, and, on the other hand, in order to induce the public to pay cash, many businesses give their customers a rebate for immediate cash payments. As a rule the rebate is 5 per cent. and rarely more, although as much as 10 per cent. has sometimes been given. In grocery businesses those articles are usually excluded from the rebate,

which can only be bought from the wholesaler for cash; shops selling articles of fashion and ready-made goods usually exclude those articles which have already been reduced in price owing to the end of the season. The rebate is paid out in two ways, viz.:—

(1) It may be deducted from the price at the time of purchase. In the case of weekly or monthly payment, it is deducted from the total payments for the week or the month.

(2) The rebate is allowed on the handing over by the buyer of a number of vouchers or stamps which he receives at the time of purchase and which he has to collect.

Sometimes the owner enters into an arrangement with societies to allow the members a rebate on showing their membership card, and the rebate is paid out through the society. In the grocery and provision trade the system of granting rebates has almost entirely displaced the former custom of granting gifts at Christmas time; in small towns, however, these gifts are still customary, and so long as all the tradesmen of the locality fail to combine to abolish them, they are indispensable to the shopkeeper for the maintenance of the clientele. Such combination among the tradesmen, however, is very difficult owing to the keenness of the competition which exists between them.

The thought underlying the rebate system is the granting of some recompense to the customer who pays cash, just as the retailer receives compensation from his supplier, and when it is considered that the retailer is protected against losses by the cash system and is in a position to turn over his capital more quickly and more easily, there is much to be said in favour of a modest rebate of say 5 per cent. if it is granted to all customers. It is unwise, however, for the trader to allow a rebate to the members of certain societies only, and not to the general public. In this case he metes out to his customers two kinds of treatment and creates two sets of prices. It is also unwise to allow too large a rebate, for it is apt to create the impression that the trader has fixed his prices too high and is trying to deceive his customers.

Some retail traders are in the habit of stimulating their turnover by granting a bonus on turnover to their salesmen, and thus spurring them on to give the business more attention. The disadvantage of this, however, is that the staff may be led to foist goods on to the customers against their will, and in so doing they may importune the customers.

The trader can surely find means of spurring on his staff in other ways, as by granting them adequate wages with extra remuneration for meritorious services.

184.—**Propaganda.** In order to ensure a satisfactory turnover, and to maintain his business connection, the trader cannot

afford to dispense with the services of a series of institutions which are comprised under the term "propaganda," the aim of which is to draw the attention of the public to the business. The need for propaganda in the retail trade varies greatly according to the forms of management. The hawker and pedlar do not require any propaganda, because they personally visit their customers and place their goods before them; their success depends largely upon personal ability. The market trader employs propaganda to a very limited degree, and is content to offer his goods to the passers-by and to endeavour to induce them to buy. The commercial traveller, whose object is to sell as many goods as possible in a short time, is obliged to adopt an energetic scheme of propaganda. Nor can the local shopkeepers dispense with propaganda, although it may vary with the position of the business and the nature and extent of the concern. Propaganda will naturally grow with the increase of the clientele and also with the keenness of competition.

[illegible] by
retai [illegible]
wind [illegible]
of placards, cost cards, price lists, catalogues, and newspaper advertisements.

185.—**External Decoration of the Business.** Many traders begin their propaganda with the business itself, which they decorate with all sorts of signs bearing conspicuous lettering or fixed in a very prominent position Occasionally one even finds the name of a firm inlaid in mosaic in the pavement. On both sides of the entrance doors there are often to be seen large plates upon which the goods sold inside are enumerated, or pieces of the goods may be hung on hooks near the door. If there are wide pillars between the shop windows or beside the door, these may be used for fixing show cases in which small articles may be exhibited. In this connection some of the simplest laws of harmony and good taste are often violated. The architectural beauty of the business house is hidden by signs, and sometimes the whole building is covered from top to bottom with them. These signs are frequently made by artisans who are entirely devoid of taste, and who make them in the most incredible colours and forms, and thus deface the whole building and even the whole street. The simpler the signs are kept the greater is their effect.

[illegible] op windows receive [illegible] The employment [illegible] as made it possible to give more accommodation to the windows. Here the retailer displays his most important goods in as conspicuous a manner as possible, and endeavours to attract the attention of the passers-by

with a continual change in the goods exhibited. The care which is lavished on the decoration of the windows is increased to an incredible extent during the special seasons such as Easter, Whitsuntide, and Christmas time. In the evening the windows are frequently flooded with gas or electric light, and even during the night some businesses leave their shop windows open and all the lights on. This kind of propaganda is practised on a large scale by the departmental stores, whose windows are richly furnished with mirrors which day and night attract the attention of the passers-by. For them the tasteful decoration of their show windows is so important that they often find it advisable to engage an expert window-dresser.

In order to stimulate public demand, articles of a pleasing and tasteful appearance are displayed in the window, and on them are marked the prices in plain figures. In the case of expensive goods, however, the prices are usually omitted—a method which certainly cannot be commended. The windows, too, sometimes violate good taste; at any rate it is injudicious to decorate the windows with fantastic objects which have no connection with the goods themselves. As a means of inducing retail shopkeepers to take a greater interest in window dressing, a special shopping week has been established in many towns, and prizes have been awarded for the best window displays; moreover, in recent times classes have been established in the art of window display, and courses for the training of the staff in advertising and salesmanship.

Some retail shops, especially furnishing and ready-made clothing businesses, devote much attention and expenditure upon the decorations of the interior of the shop; in the exhibition of their goods they frequently manifest much artistic taste. This tasteful and methodical arrangement of the goods assists the buyer in making his selection, and leads to a more speedy transaction of business.

186.—**Posters.** In great favour nowadays is advertisement by posters. Large firms spend considerable sums, and endeavour to have not only conspicuous but also elegant posters. In consequence the services of art have been enlisted in the production of such posters, and artists of repute now devote their time to this work. Unfortunately competition amongst firms in the production of posters has led to all sorts of exaggeration which exercise a repulsive effect and should be strongly condemned.

187.—**Other Methods of Propaganda in the Retail Trade.** The retail businesses send out circulars, postcards, catalogues, price lists, and handbills in large quantities. The public, however, are so accustomed to these methods of appeal that attention is no longer given to them, and they are frequently thrown away unread. Hence the trader who wishes to draw attention to his

business in this manner must make the advertising matter conspicuous, or he must draft the text in such a way as to rouse the curiosity of the reader. The production of these advertising media has therefore become a special branch of work. The printing and designing of the firm's stationery, such as letter headings, envelopes, invoices, etc., must also be included amongst the means of propaganda, and may prove very effective if neatly executed.

The most usual form of advertising is the making of announcements in daily newspapers and periodicals. This, likewise, requires great skill if it is to be successful; the advertising media must be selected with expert knowledge, the most opportune time has to be chosen, and the framing and drawing up of the advertisements must be carefully undertaken. In recent years the trader has been able to receive the expert advice of the advertising agent through whose services he may frequently advertise more cheaply than by addressing himself directly to the newspapers.

Apart from these customary means of propaganda, there is also a whole series of others, such as the advertisement on the back of tram tickets, on theatre programmes, or by means of the firm's vehicles, which may be constructed in the form of boots, hats, tea chests, wine casks, loaves, etc. It is impossible to enumerate all the various advertising media, because their number increases daily, and inventive aids are continually discovering new methods of drawing the public attention. Large firms such as departmental stores and multiple-shop concerns usually have a special advertising department, and employ advertising managers with high salaries.

188.—**Propaganda in the Wholesale Trade.** The propaganda of the wholesale merchant moves in quieter grooves, for his business is conducted either with traders or manufacturers who are usually experienced business men who can be swayed, not by conspicuous and loud advertisements, but by the material advantage of the business connection. In the wholesale trade, therefore, the propaganda does not present the same ugly tendencies as in the retail trade.

The means of advertising generally employed by the wholesale trade consist chiefly of circulars, catalogues, price lists, and announcements. For the last mentioned, however, the wholesaler only selects the large daily papers and preferably trade papers, of which in our days every branch of trade possesses one. Foreign newspapers, exhibition catalogues, trade directories, railway timetables, etc., are all employed by the wholesale merchant to make his firm known. The judicious selection of the papers and the utilisation of favourable opportunities of advertising are of great

importance to him; he will, therefore, do well to take the advice of an experienced advertising agency.

As special means of propaganda, the wholesaler may utilise export sample rooms and exhibitions; however, as these chiefly serve the needs of the manufacturer we will not discuss them here. Any one who is compelled to carry on an advertising campaign must first decide upon the amount which he may spend upon it so that the expenditure may bear a proper relation to the results. Such results may be ascertained from a proper system of advertising statistics which should show the success of each advertising medium.

189.—**Personal Solicitation of Orders.** Amongst the further means of increasing the turnover must be included the personal visitation of the customers. The itinerant trader, especially the pedlar, visits the consumer direct; as a rule the shopkeeper is content to wait for the customers, and has but limited means of getting into direct touch with them. He can only get into personal touch with his prospective customers by the aid of messengers or travellers. In the grocery and provision trades of the large centres, it has become the custom to send out messengers regularly every day, or on certain days each week, to their customers in order to ascertain whether there are any orders, and if so to send on the goods; in agricultural centres, especially during the summer months when the farmers are prevented by field work from visiting the town, the traders send out their conveyances laden with goods ready for sale to the neighbouring villages. With this method of securing a turnover the retail shopkeeper tends to assume the rôle of a hawker or pedlar. This is also the case in the ready-made clothing and hosiery trades, where it is customary to send out travellers, who visit the customers with samples and take orders for the goods.

190.—**Sending Out Quotations and Samples.** The impersonal solicitation of orders by sending out circulars, quotations, market reports, price lists, catalogues of all kinds, and samples, plays a prominent part in the wholesale trade. In some business concerns this is done regularly throughout the year, and it then leads to a result similar to that gained by sending out travellers, although it entails considerable expense especially in view of the fact that many offers are sent to persons who are not in the position of being able to take advantage of them. Where a merchant therefore desires to avoid unnecessary expense, he must endeavour to procure addresses of suitable persons only, and that is not always easy. The collection of commercial addresses and the issue of directories, however, has become a special industry, and a merchant can also obtain thousands of addresses, ready printed, from advertising

agencies, and all he has to do is to stick the addresses on the envelopes; the compilation of these addresses is frequently executed in so perfunctory a manner that only a small percentage are addressed to suitable persons.

In the dispatch of samples a second point has to be considered; that is, the goods must conform to the needs and tastes of the place or country of destination. Hence a person who desires to be successful in sampling must obtain a minute knowledge of the various markets as well as be in possession of a good taste in the selection of novelties. The manager of a sample department who fulfils these requirements is usually one of the best paid employees of the firm.

191.—**The Competitive Struggle.** The competition of a number of persons for the attainment of the same end manifests itself in trade in the most varied manner; it is seen in the procuring and placing of capital, in the purchasing or renting of business premises, in the employment of staff, and in the purchase and sale of goods, while it exerts an influence on the intercourse of traders with each other as well as in their intercourse with the consumers. For the retail trader all these relations are very important; the position of the business, the skill of the staff, the amount of credit extended to him, and the advantages he can secure in effecting his purchases, all these help to determine the success of his undertaking, and it is therefore necessary for him to outpace his competitors in these matters, or at least to remain equal with them.

Most severe and violent, however, is the struggle of the traders for the disposal of their goods. This is the principal form of competition, and the term "competition" usually implies the struggle for the sale of the goods. In the retail trade it is keenest where no specialisation has taken place. A grocer who sells cigars, wines and spirits, and provisions, in addition to his groceries, has to meet not only the competition of his rivals, but also the competition of the more specialised businesses; in addition, he has to defend himself against the competition of the large departmental stores and co-operative societies, which in these days specialise in the sale of almost all kinds of goods, and therefore compete with every branch of the retail trade. There must also be added to this struggle against local shopkeepers, the competition of outside traders—hawkers and pedlars, the mail order businesses, and the branch establishments of the large multiple-shop concerns which have been established in the surrounding districts. Combined with this permanent strife there is frequently intermittent competition on the part of the fairs and markets which confine their attention to the retail trade.

Competition in the retail trade centres around the following :—

(1) *The Price of the Goods.* By the offer of apparently or actually lower prices, one retailer tries to undersell another, and to drive him entirely or partly from the field.

(2) *The Quality of the Goods.* The endeavour to outrival competitors by the provision of a better quality of goods is nowadays only to be found in a small number of businesses, especially old, well-established concerns with plenty of capital which, owing to their reputation, have no need to join in the struggle for a market. However, only that part of the clientele remains true to these firms which holds to the principle that the best purchases are made by those who pay the highest price. The majority of consumers, however, demand an outwardly nice-looking but low-priced article, and compel the trader to stock the cheaper but less satisfactory articles.

(3) *Conditions of Sale.* The trader tries to attract the customer by including the cost of packing in the price, by the granting of credit, by permitting the exchange of goods, and by sending the goods to the customer's address.

(4) *Convenience of Ordering the Goods.* Messengers are frequently sent to the consumers to ask whether there are any orders, and order cards already stamped are left with them.

(5) *External Appearance and Packing of the Goods.* In this, the trader not only endeavours to attract the attention of the onlooker, but he strives to adapt himself to the public taste, which may vary greatly according to the locality or the social class which he is serving.

(6) *The Shop Equipment and Window Display.*

In his competitive struggle the trader is assisted by :—

(1) His personal qualities, such as tact, skill, inventiveness, energy, perseverance, honesty, probity, and his practical experience.

(2) An adequate, fixed, and working capital. The financially strong trader has always an advantage over the one who lacks capital, however industrious and economical the latter may be.

(3) A good education. Other things being equal, the trader who is equipped with a good general and commercial education is at an advantage. All sorts of elements push themselves into the retail trade, and retail shopkeeping seems to be a collecting-ground for all those who are unable to succeed in their own calling, and yet it is a calling by itself which requires a certain measure of theoretical knowledge.

The overcrowding which has taken place in the ordinary retail trade through the influx of so many people anxious to make a living, and the attacks to which the trade is exposed on all sides,

have rendered the competition in some trades particularly violent. In the heat of the struggle, and under the pressure of rivals, retailers frequently resort to the use of questionable means to secure for themselves an advantage over their competitors; the consequence is that it is not always the more efficient and steady retailers who are successful in the struggle, but those who employ their means in the most unscrupulous manner.

In the wholesale trade, competition amongst the various merchants is equally keen. The manufacturer strives to eliminate the wholesale merchant, the foreign exporter and the inland importer; one wholesale merchant tries to get the better of another, and therefore sends out his new samples or his traveller, or he attempts to undersell his rivals by lower prices, better quality of goods, or by the granting of more favourable conditions of sale. In this connection, then, personal ability, a thorough training, and an adequate capital are the best aids to withstand successfully the competitive struggle.

SECTION III.—EXTENSION OF THE BUSINESS

Chapter XXI

METHODS OF EXTENDING THE BUSINESS

192.—**Procuring further Capital.** Where a business has been built up on a sound basis and where it is managed on sound principles, success is certain, and soon it may be necessary to extend the business. Before the trader ventures upon such a course, however, he must, as he did at the outset, establish by careful calculation whether the expenditure for the proposed extension is likely to prove remunerative and how great the expenditure would be. He must then be quite clear in his own mind as to which is the most suitable way of procuring the means for enlarging the concern.

In the extension of a business two methods may be adopted: where the trader is still in a position to survey and manage a more extensive concern, it is merely a question of procuring the necessary capital; where, however, the extension is intended to be of such a nature that a single person can no longer superintend the business, then the financial question is linked up with that of staff.

A trader has various ways open to him for procuring additional capital for the extension of his business. In the first place, he may endeavour to obtain larger quantities of goods on credit than he has previously had. This will not be a difficult matter if he has previously proved himself to be a conscientious and punctual payer. Further, he may procure money from financiers, in the form of a loan at interest. Perhaps in most cases he will prefer to raise such a loan through a bank either against securities or on the basis of his own personal reputation. The latter method is preferable, since the trader is less likely to be exposed to the sudden withdrawal of funds from his business owing to the recall of the loan. Credit which is extended to the trader on the basis of his integrity and honesty is known as *personal credit*. Generally speaking, banks are not very anxious to grant such open credits, and they usually demand the name of a guarantor of undoubted

financial stability. Otherwise, they will ask for the deposit of securities, or they may grant a loan against bills of exchange. Frequently, they will authorise a trader to issue drafts upon them for the purpose of paying for his purchases, and the trader is then expected to deposit the money for the redemption of the draft before the date of maturity.

Where the trader possesses property, he may raise a mortgage upon it. He is to be warned, however, against burdening the property with too many mortgages, for, on the one hand, the burden of interest is very high and may possibly eat up all the profit made with the capital, and, on the other hand, the proprietor of the business may be greatly embarrassed by the sudden withdrawal of a mortgage, especially at times when money is scarce.

193.—**Establishment of Branches.** When carrying on trade with distant places, the establishment of branches is the simplest although not the most efficient way of extending the business. Where this method is to be adopted there must be evidence of the existence at a given place of a market of a certain size, sufficient to bear the cost of the method and at the same time leave a margin of profit. This fact, however, cannot easily be ascertained beforehand, and for that reason, the method is generally applied where the soil has already been prepared by other methods of sale to such an extent that a sure sale may be expected at a not far distant period in the future. The dependence of the branch managers upon the principal establishment will, as a rule, be sharply marked in consequence of the great expense and considerable risk involved in the establishment of such a branch. Ultimately everything will depend upon the principal establishment. In the hands of a firm experienced in this method of sale, the establishment of branches is an excellent means of obtaining the largest possible sale of its products.

Furthermore, the activity of the branch may be strictly limited geographically. The branch establishment is usually a transplantation on a smaller scale and into a new soil of the parent establishment. This mere transplantation, however, does not ensure that the permanent interests of the firm will be served. Frequently the parent firm has risen under economic conditions which differ entirely as far as local circumstances are concerned. The tendencies of development which are characteristic of the parent undertaking may be absent, and different conditions may exist in the locality in which the branch has been established; thus the latter often requires special treatment suitable to the local conditions. This is a fundamental defect of the branch system which can only be avoided by the most skilful conduct of this form of organisation.

194.—**The Appointment of Travellers.** The defect of the undue geographical limitation of the operation of the branch establishment does not exist in the case of the commercial traveller; he can extend his activity over a large area.

With his personal dependence, which is much less marked than in the case of the branch employee, he combines the full representation of his principal in the same manner as the branch establishment. Travellers, however, can only be sent out in restricted numbers; otherwise sufficient control over them—which is desirable in all cases—is impossible. The journeys of a traveller must be arranged in a systematic manner so that they may be profitable, and prevent the expenses from becoming too high. In any case, the possibility of a sale must exist, and a sale must be obtained which will cover the whole of the expenses and leave a margin of profit. These factors restrict considerably the area within which a traveller may successfully conduct his activity. The expenses of sale through the medium of a traveller play an important rôle, especially in view of the fact that he is usually paid a salary in addition to his commission and expenses.

195.—**Appointment of Manufacturers' Agents.** Where it is necessary to grant independence of action, it is preferable to allow this independence to a manufacturers' agent who, by virtue of his whole position, also bears the full responsibility for his actions. On account of his close relationship with his customers he establishes not only a close connection between the customers and the firm he represents, in a manner quite impossible to the commercial traveller, but he likewise assumes a position which enables his firm to become intimately acquainted with the economic position of the customers. He is able to estimate accurately the extent of the credit which can fairly be extended to the customers, and he can keep an eye permanently on their financial standing. Moreover, he can always keep himself informed of the various circumstances of the customers and any change in their condition which might take place. These are important advantages such as no commercial traveller can offer to his firm. Hence, in this respect the manufacturers' agent has more far-reaching duties than a commercial traveller, and these duties are expressed in Section 21 of the Sale of Goods Act, 1893, according to which the mercantile agent has imposed upon him many of the privileges and responsibilities of an ordinary trader.

Chapter XXII

FORMATION AND MANAGEMENT OF A PARTNERSHIP BUSINESS

196.—**Introduction.** At the present time business concerns are owned by one or more persons; that is, they are conducted either as sole trading concerns, partnerships, or companies. In point of law partnerships are of two kinds, viz.: ordinary partnerships and limited partnerships, while companies may be unlimited companies, limited liability companies, or companies regulated by special Acts of Parliament or Royal Charter, the members of which also usually enjoy limited liability. Companies will be dealt with fully in a later chapter.

197.—**Definition of Partnership.** As defined by the Partnership Act, 1890, a partnership is the relation which subsists between a number of persons carrying on a business in common with a view to profit. It does not include companies which are registered under the Companies Acts, or incorporated by another Act, or working mines within the jurisdiction of the Stannaries.

Persons who have entered into partnership are known as a firm, and their name is the firm name.

198.—**Limitation of Size.** By the Companies (Consolidation) Act, 1908, no partnership may consist of more than twenty members, or, in the case of a bank, of more than ten members, unless it is registered as a company.

199.—**Registration of Business Names Act, 1916.** According to the provisions of this Act, any individual carrying on business under a name other than his true name, and a firm using a name which does not consist of the true names of all the partners, must be registered, and the registrar's certificate must be exhibited in a conspicuous position at the principal place of business of the individual or firm.

Section 18 of the above Act states that every firm required by this Act to be registered shall in all trade catalogues, trade circulars, showcards, and business letters, or in other documents in which the business name appears, have mentioned in legible characters the present Christian names or initials and present surnames, any former Christian names and surnames, and the nationality if not British, of every member of the firm. If a

partner has been naturalised a statement of his nationality of origin must be given. Section 8 provides that if there is default in registration, then the rights of the defaulter arising out of any contract made by him or on his behalf at any time while he is in default, shall not be enforceable by action or other legal proceeding, but

(*a*) The Court may grant relief against this disability on being satisfied that the default was accidental, or due to inadvertence or to some other sufficient cause. Even this relief will not be granted if the other party to the contract satisfies the Court that, if the Act had been complied with, he would not have entered into the contract.

(*b*) If the firm is sued on such contract by the other party, the defaulter shall not be precluded from enforcing by way of counterclaim, set off or otherwise, such rights as he may have against that party in respect of such contract.

200.—**Limited Partnership.** This is a form of partnership created by the Limited Partnership Act, 1907. A firm may now consist of one or more general partners, and one or more limited partners. A limited partner can subscribe a fixed sum of capital in the business and be liable only for that amount, provided he takes no active part in the management of the business. The general partner or partners are liable for all debts and have no limited liability. Limited partnerships have to be specially registered, otherwise the limited partner will be regarded as a general partner. Application for registration must be made to the registrar of joint stock companies on a form requiring the following particulars:—

(1) The name of the firm.
(2) The general nature of the business.
(3) The principal place of business.
(4) The term or duration (if any) of the partnership.
(5) A statement that the partnership is limited.
(6) Each limited partner must be specified as such, and the amount of his capital, whether paid in cash or otherwise, stated.

The form must be signed by each of the partners.

201.—**Nature of Partnership.** In English Law a partnership is not an artificial entity distinct from the partners, hence the firm name is but a conventional mode of designating the persons of whom it is composed. Actions may be brought against the individual partners of the firm. In Common Law there was no limit to the number of persons who could enter into partnership, but now under the Companies Consolidation Act, 1908, the number of persons is limited to ten in the case of a

banker's business and to twenty in the case of any other kind of business. A firm consisting of a greater number of persons must be :—

(1) Registered under the Act of 1908 as a company; or

(2) Incorporated by Special Act of Parliament, Letters Patent, or Royal Charter.

The relations existing between members of such associations will not amount to partnership. If a partnership consists of more than ten or twenty persons as the case may be, it will constitute an illegal association. Hence the members would not be able to enforce any claim for debts owing to them, but members would be liable to a creditor who dealt with them without notice of its illegal character.

202.—**Formation of Partnership.** There are three ways in which a partnership may be created, viz. :—

(1) *By Estoppel.* Every person who

(*a*) represents himself by words spoken or written or by conduct, or

(*b*) suffers himself to be represented as a partner in a firm, is liable as a partner to any one who has acted on the faith of such representation. But if after the partner's death the business is continued in the old firm name, the continued use of the deceased partner's name will not of itself make the deceased's estate liable for debts contracted after his death.

(2) *By Express Agreement* of the partners themselves. A contract of partnership is not required to be in writing. It may be entered into by word of mouth, but

(*a*) if it is to be continued for more than one year, or

(*b*) if it involves dealings with land, then there must be some note or memorandum in writing, otherwise, although not invalid, it would not be enforceable by action at law (Statute of Frauds, Section IV.). This statute provides that no action can be brought to charge any person upon any agreement not to be performed within one year, and upon contracts for the sale of lands or tenements or interests therein, unless there is some agreement in writing signed by the party to be charged or his agent.

(3) *By Implied Agreement.* Even in the absence of any express agreement, persons may become partners so as to have the rights and be subject to the liabilities of partners, by implied agreement, to be inferred from their conduct or the surrounding circumstances or from the agreement that they will share profits. Whether in doubtful cases there is a partnership or not depends on the intention of the partners as manifested in their agreement.

If the real intention of the partners, as shown by the facts of the case, is to enter into an agreement to carry on business with a view to profit, the partnership will be construed in law so as to render every partner in the agreement liable to the creditors even though he may have stipulated in the agreement that he would not remain a partner thereby.

On the other hand, it has been decided by the House of Lords that although the receipt by a person of a share of profits of a business is *prima facie* evidence that he is a partner in the business, the receipt of such a share of the profits does not of necessity and of itself make him a partner in the business. In the Partnership Act, 1890, it is now expressly provided that :—

(*a*) the receipt by a person of a debt by instalments or otherwise out of the accruing profits does not of itself make him a partner ;

(*b*) a contract for the remuneration of a servant or agent out of the profits does not make him a partner ;

(*c*) the widow or children of a deceased partner receiving a portion of profits in the business in which the deceased person was a partner, does not make such person or persons partners in the business ;

(*d*) the advance of money by way of loan to a person engaged in or about to engage in any business under a contract that the lender shall receive interest varying with profits, does not make the lender a partner provided the contract is in writing and signed on behalf of the partners thereof ;

(*e*) a person receiving by annuity or otherwise a share of the profits of a business in consideration of the sale by him of the goodwill is not by reason of such receipt a partner in the business.

203.—**Liability of Partners for Partnership Debts.** Every partner is the agent of the firm and of the other partners for the business of the partnership. Hence

(1) The acts of every partner who does any act for carrying on in the usual way any business of the kind carried on by the firm of which he is a member binds the co-partners unless—

(*a*) The partner acts in a matter in which he has no authority to act, and

(*b*) The person with whom he is dealing either knows that he has no authority or that he is not a partner.

If it has been agreed that any restriction shall be placed on any one of the partners, no act done in contravention of that agreement is binding on the firm in respect of persons having notice thereof.

(2) An admission or representation made by any partner

concerning the partnership affairs and in the ordinary course of business is evidence against the firm.

(3) Notice to any partner who habitually acts as partner in a business operates as if it had been sent to the firm, except in the case of a fraud committed by that partner.

Whether or not any particular act done by a partner is an act *for carrying on in a usual way business of the kind carried on* by the firm of which he is a member, is a question to be determined in each case—

(1) By the nature of the business, and
(2) By the practice of persons engaged in it.

204.—**Partner's Authority.** But in many cases the extent of the implied authority of a partner has been determined by judicial decision and is now recognised as a rule of law. For example, every partner in a firm, whether the partnership is a trading partnership or otherwise, has *prima facie* authority to bind the firm by any of the following acts, viz. :—

(1) He may sell any goods belonging to the firm.

(2) He may purchase goods of a kind necessary or usually employed in the business carried on by the firm.

(3) He may receive payment of debts, and give receipts therefor.

(4) He may engage servants for the partnership business.

Further, if the partnership is a trade partnership but not otherwise, every partner has authority to bind the firm by any of the following acts, viz. :—

(5) He may accept, make, and issue bills of exchange, cheques, or promissory notes in the name of the firm.

(6) He may borrow money on the credit of the firm subject to the qualification that where one partner pledges the credit of the firm for a purpose not apparently connected with the firm's ordinary course of business, the firm is not bound for the amount unless he is specially authorised by the other partners to so pledge their credit.

(7) In order to borrow money for the firm he may in a proper case pledge any goods or documents of title to goods belonging to the firm, or he may create an equitable mortgage by the deposits of title deeds to goods or to any real estate or leasehold property belonging to the firm.

(8) He may, if he is the managing partner of the firm, employ a solicitor to defend an action brought against the firm for the price of goods supplied to the firm in the ordinary course of business, and such solicitor is not guilty of negligence in not keeping the partners other than the managing partner by whom he is employed informed of the progress of the action.

A partner, whether it be a trading partnership or otherwise, has *no* implied authority to bind the firm by any of the following acts :—

(1) He cannot give a guarantee in the firm's name.

(2) He has no authority to submit to arbitration a case in which the firm is concerned.

(3) He cannot execute a deed unless it be for the purpose of giving a release to some debtor to the firm.

(4) He cannot take a lease of a house or other place for partnership purposes.

(5) He cannot execute a legal mortgage of real estate or leasehold property belonging to the partnership.

(6) He cannot amalgamate the firm with another firm.

(7) He cannot accept shares in a company, even though fully paid up, in satisfaction of a debt due to the firm.

205.—**Liabilities of Partner in respect of Wrongs.** The general rule of English Law is to the effect that every principal is liable for wrongs done by his agent provided they were done either:—

(1) With the authority of the principal, or

(2) In the ordinary course of the agent's employment for the benefit of the principal, even though they may have been done without the knowledge or authority of the principal.

In applying this rule to the case of a partnership, each partner is an agent of the firm and of his other partners for the purpose of the business of the partnership. Hence the general rule as to partnership liability for wrongs is: that where, by any wrongful act or omission of any partner acting either—

(1) In the ordinary course of the business of the firm, or

(2) With the authority of his co-partners,

loss or injury is caused to any person not being a partner in the firm, the firm is liable to the same extent as the partner so acting or omitting to act. If, for example, " X " and " Y " are solicitors in partnership, and a client of a firm hands a sum of money to " X " to be invested on a specific security introduced to the client by " X," and " X " never invests the money at all but misappropriates it to his own use, then " Y," the other partner, is liable to make good the loss although he receives no part of the money and knows nothing about the transaction, because " receiving money to be invested on a specified security " is part of the ordinary business of a firm of solicitors. But if, on the other hand, the client had given the money to " X " with a general direction to invest it for him on suitable securities which might subsequently be obtained, " Y " would not be liable because it is no part of the ordinary business of a firm of solicitors to act as scriveners, that is, to receive money to be invested generally at their discretion.

Subject to any agreement expressed between the partners:—

(i) Every partner may take part in the management of the partnership business.

(ii) No partner is entitled to remuneration for acting in the partnership business.

(iii) The firm must indemnify every partner in respect of payments made and liabilities incurred by him either—

(*a*) in the ordinary and proper conduct of the business of the firm, or

(*b*) in or about anything necessarily done for the preservation of the business or property of the firm.

(5) The partnership books are to be kept at the place of business of the partnership or at the principal place of business if there is more than one; and every partner may, when he thinks fit, have access to and inspect and copy any of them.

Formerly, it was doubtful whether a partner could claim the right to have the partnership books examined by an agent on his behalf, or whether the right to examine them was confined to himself personally; but it is now settled that a partner is entitled to have the partnership books examined on his behalf by an agent provided—

(*a*) that the agent is a person to whom no reasonable objection can be taken by the other partners, and

(*b*) that the agent undertakes not to make use of the information he acquires except for the purpose of confidentially advising his principal.

(6) Any difference arising as to the ordinary business may be decided by a majority of the partners. No alteration, however, may be made in the nature of the partnership business without the consent of all existing partners, and no majority of the partners can expel any partner unless the power to do so has been conferred by express agreement between the partners.

(7) No person may be introduced as a partner in the firm without the consent of all existing partners. On the other hand, it is impossible to prevent a partner from assigning his rights and interests in the business. But if a partner assigns his share in the partnership to a third person, either absolutely or conditionally, i.e. by way of mortgage or charge only, such assignment does not, as against the other partners, make the assignee a partner in the firm, or entitle the assignee during the continuance of the partnership:—

(*a*) to interfere in the administration or management of the partnership business or affairs, or

(*b*) to require any accounts of the partnership transactions, or

(*c*) to inspect the partnership books;

but it merely entitles the assignee to receive a share of the profits to which the assigning partner would be entitled, and the assignee must accept the accounts of profits agreed to by the partners.

207.—**Articles of Partnership.** In an ordinary partnership it is desirable that the terms arranged between the partners should be drawn up in the form of a deed known as the Articles of Partnership. These articles ought always to provide when the partnership is to begin and for how long it is to continue, because if no fixed term has been agreed upon it is a *partnership at will* only, with the result that any partner may terminate it at any moment on giving notice of his intention to do so to all other partners. If the term for the duration of the partnership has been expressly fixed in the first instance, the partnership ought not to be continued after the expiration of that term without fresh articles of partnership being drawn up, because where a partnership entered into for a fixed term is continued after the term has expired and without any express new agreement, the partnership is a partnership at will only and the rights and duties of the partners remain the same as they were at the expiration of the term so far as is consistent with the incidence of a partnership at will. In such a case the continuance of a business by the partners or by such of them as have habitually acted therein during the term without any settlement or liquidation of the partnership affairs is presumed to be a continuance of the partnership. A great deal of inconvenience is often caused through this being overlooked, and if two people enter into partnership after the expiration of the period agreed upon they should make new articles of partnership. But where a partnership is entered into for a definite time and it is entered into after that time without any new agreement, the articles under which the firm was carried on continue, so far as they are applicable to a partnership at will, to regulate the mutual rights and duties of the partners.

The ARTICLES OF PARTNERSHIP should also provide for :—

(1) The proportions in which the capital is to be contributed by the partners and the proportions in which they are to be entitled to it when contributed.

(2) The allowance of interest on capital and on advances respectively.

(3) The division of profits and losses and the drawing up of the necessary accounts.

In the absence of and subject to any agreement expressed or implied between the partners, the rules on these points are as follows, viz. :—

(1) All the partners are entitled to share equally in the

capital and profits of the business, and must contribute equally towards the losses whether of capital or otherwise sustained by the firm. In other words, every partner is supposed to have an equal share in the business.

(2) A partner making any actual payment for the purpose of the partnership beyond the amount of capital which he has agreed to subscribe is entitled to interest at the rate of 5 per cent. per annum from the date of the payment or advance; but

(3) A partner is not entitled before the ascertainment of profits to interest on the capital subscribed by him.

208.—**Partnership Property.** Partnership property or joint estate includes all property and all rights and interests in property which have been either—

(*a*) originally brought into the partnership stock, or
(*b*) subsequently acquired, either by purchase or otherwise on account of the firm, and in the course of the partnership business.

Partnership property must be held and applied by the partners exclusively for the purpose and in accordance with the partnership agreement.

But partners may at any time by agreement between themselves convert partnership property or joint estate into the several or separate property of one or more of the partners, or they may convert the latter into joint or partnership property. Such conversion, if made in good faith, is binding, not only between the partners themselves, but also between the creditors of the firm and of the partners, provided always that if the firm or if the partner whose separate estate is concerned becomes bankrupt or insolvent after any such agreement has been entered into, but before it is completely executed, then the property will not be treated in a Court of Law as converted. Unless the contrary intention appears, all property bought with money belonging to the firm is deemed to have been bought for and on behalf of the firm and is deemed partnership property. The partners are joint owners without benefit of survivorship of all the partnership property as above defined. In ordinary cases when two or more persons are joint owners of any property, then on the death of one the entire property belongs to the survivor or survivors by virtue of the "Jus accrescendi" or benefit of survivorship.

This simply means that if "A" and "B" are joint owners of any kind of property, whether real or personal, then on the death of "A" the whole of the property belongs to "B." But equity does not favour this anomalous rule in the case of persons engaged in trade, and therefore it has no application to partnership property held by two or more persons as joint tenants.

Chapter XXIII

FORMATION OF A LIMITED COMPANY

209.—**Statute Law.** The law relating to companies is now contained in the Companies (Consolidation) Act of 1908, which consolidated the Companies Act, 1862, and the Acts amending it. Since 1908 there have been two short Acts, one in 1913 dealing with private companies only, and the other in 1917 dealing chiefly with the publication of details as to directors.

210.—**Nature and Cause of Evolution of Companies.** A company under the Companies Act is an association of a number of members, the whole constituting one single person distinct from its members. Modern trade needs a large capital, which in the case of ordinary partnership could only be obtained by the combination of such a large number of partners as to interfere with the efficiency of management. Partnership, as we have seen, is a combination of several persons, each one being the agent of the other and liable for all debts incurred in the business. Each partner has a right to take part in the management; shares are not freely transferable, and the firm is not a separate legal person. The Companies Act, 1862, was intended to prevent the mischief arising from large trading undertakings being carried on by large fluctuating bodies. In the statutory company shareholders are not one another's agents. They have no right to interfere in the business which is carried on by the officers usually called directors. Shares are freely transferable, and in the case of limited companies the liability of each member is limited.

211.—**The Incorporated Company.** From a legal standpoint a company always means an incorporated company. If a company is not incorporated it is in reality a large partnership, even though it may be called a company or syndicate, and it is governed by the law of partnership But every association of more than ten persons for the purpose of carrying on the business of banking and every association of more than twenty persons for carrying on any other kind of business that has for its object the acquisition of gain, must be formed and registered as an incorporated company, because if not so

formed and registered, it will be an illegal association, with the result that :—

(1) No action at law can be brought by it either against a member or any other person, and

(2) No person whether a member or an outsider can sue the association, because it cannot enter into any kind of contract.

A company can only be incorporated in two ways—either by Royal Charter, or in pursuance of an Act of Parliament. A company which is formed in the nature of a public utility company requiring special rights and privileges, e.g. a railway or canal company, is generally formed by a Special Act of Parliament. An ordinary trading company is incorporated by registration under and by virtue of the Companies Acts, 1908 to 1917, and in the great majority of cases the liability of the members of a company is limited to the nominal amount of their shares. Every such company must have as the last word of its name the word " Limited," and the name of the company with the word " Limited " must be affixed to the outside of every place in which the business is carried on, and must also appear on all documents issued or used by the company. In default, the officers of the company are liable to penalties and will themselves be personally liable to the creditors of the company who fail to get payment from the company. But where an association is about to be formed for the purpose of promoting commerce, art, science, religion, charity, or any other similar object, and the founders are willing to form it on the footing that its profits or income shall be applied exclusively in promoting the objects of the association, and that no dividend shall be paid to its members, the Board of Trade has the power under Section 20 of the Companies (Consolidation) Act, 1908, to grant a licence authorising the registration of the association with limited liability, but without the addition of the word " Limited " to its name.

212.—**The Difference between a Company and a Partnership.** The essential difference between an incorporated company and a partnership should be very carefully noted. A partnership is merely the aggregate of its individual members, whereas a company is a body corporate or a corporation which, in point of law, is a person just as much as an individual, although to distinguish it from a natural person it is called an artificial or juristic person ; that is to say, although a company has no physical existence, yet in contemplation of law it is in itself an entity separate and distinct from the members or shareholders who are interested in it ; hence—

(1) A contract by the company does not give the other party to the contract any right of action against the members of the

company, and a creditor of the company is not a creditor of its members.

(2) A member of the company can contract with and become a creditor of the company, and he can sue the company just as if he were an outsider.

(3) In a partnership each partner is an agent of his co-partners for carrying on the firm, but the members of the company are not agents of the company. The only control they have over the management and affairs of a company is by voting in general meeting.

(4) The liability of each partner for the debts of the firm is unlimited, whereas the liability of each shareholder in a company may be, and usually is, limited in amount.

(5) One partner cannot transfer his share in the business so as to make the transferee a partner without the consent of his co-partners, whereas the shares in a public limited company are freely transferable.

(6) Partners may make whatever private arrangements they like among themselves, but even the unanimous consent of all the shareholders in a company cannot invest the company with powers not given to it by its constitution, nor can it ratify, as the act of the company, that which the company has no power to give.

(7) So long as the requirements of the Companies (Consolidation) Act, 1908, are complied with, there is nothing to prevent a man from selling his business to a company consisting of himself and six members of his own family—his business being then solvent and all the terms of the sale being known to and approved by the shareholders—*even though his object is to limit his liability* and to obtain the preference of a debenture holder over the other creditors of the company. This was decided in the case of Salomon *v.* Salomon & Co Limited (1897), Appeal Case, p. 22. Mr. Salomon had for many years carried on business as a wholesale boot manufacturer on his own account. In the year 1892, mainly for family reasons, he determined to form a private company, consisting of his own family, to take over this business and turn it into a limited company. He entered into an arrangement to sell the old business. Part of the agreement was that in consideration of the purchase price of the old business he should be paid in debentures. Debentures were duly issued to him as part payment for the business. Unfortunately bad times occurred, and the result was that after three years the company came to grief and was compulsorily wound up. In the winding-up the liquidator applied to have the sale of the old business set aside, and the debentures set aside as having been illegally

issued. But the Court decided in this case that Mr. Salomon was perfectly justified in selling the old business, and that he had priority over the other creditors as a debenture holder.

213.—**Private Company.** The registration of a business as a private company affords facilities to the testator whose capital is sunk in his own business to divide his estate among his relatives without disturbing the financial arrangements of the undertaking, and at the same time limiting the liability of those to whom the business is left.

According to the Companies (Consolidation) Act, 1908, a private company is one which by its Articles of Association—

(1) Restricts the right to transfer its shares;
(2) Limits the number of its members, exclusive of those who have been in the service of the company, to fifty, and
(3) Prohibits any invitation to the public to subscribe for shares or debentures of the company.

These are three essentials, and the fact that the company does not issue an invitation to the public is not sufficient to constitute it a private company, but there must be specific provisions in the Articles of Association which preclude it from doing so.

The chief privileges of a private company are:—

(1) The minimum number of members may be two instead of seven.

(2) It is not obliged to file a statement in lieu of prospectus.

(3) The restrictions put upon the commencement of business do not apply.

(4) It is not required to file with the annual summary the prescribed financial statement in the form of a balance sheet.

(5) The restrictions placed on the allotment of shares and on the appointment of directors do not apply.

(6) It is not required to forward to the members, or to file with the registrar of companies the statutory report.

(7) Holders of preference shares and debentures in a private company do not possess the right of those in a public company to receive and inspect the balance sheets and the auditors' reports.

In the following pages, unless otherwise mentioned, reference will be made exclusively to public companies, limited by shares, under the Companies Acts, 1908 to 1917.

214.—**Memorandum of Association.** The Memorandum of Association is a document which, on the formation of a company, must be filed with the registrar of companies, and contains the following particulars:—

(1) The name of the proposed company with the addition of the word " Limited " as the last word of such name. Practically any name can be chosen, provided that words denoting royal patronage, such as " Royal," are not used without the consent of the Home Office, and the name selected must not too closely resemble the name of another company or concern carrying on a business similar to that proposed to be carried on by the new company. Other words not allowed without express permission are " Red Cross " and " Anzac."

(2) In what part of the United Kingdom the registered office of the company is to be situated. The principal object of having the office, the exact address of which is separately notified to the Registrar, is to provide a definite place on which writs, notices, summonses, etc., may be served on the company.

(3) The objects of the company.

(4) A statement that the liability of the shareholders is limited. The effect of the statement is that no shareholder can be called upon to pay more than the nominal amount of his shares, or so much thereof as remains unpaid, so that if the shares are fully paid up there is no further liability in respect of them.

(5) The amount of the nominal capital of the company; the number of shares into which it is to be divided, and the amount of each share.

The Memorandum of Association must be subscribed by at least seven persons, and they must each subscribe for at least one share. Any one may be a subscriber, e.g. a married woman, an alien, or even an infant. Each subscriber must write opposite his name the number of shares he agrees to take, whether one or more, and the signatures must be attested by a witness—but one witness to all the signatures is sufficient. The maximum number of members in a public limited company is usually fixed by the number of shares, as the regulations usually provide that no member may hold less than one share, joint members being treated as a single member.

215.—**Alteration of the Memorandum.** The Memorandum of Association is the charter of the company to which it relates; that is to say, it contains the fundamental conditions upon which a company is granted incorporation; hence:—

(1) With certain minor exceptions, the Memorandum of Association cannot be altered except with the leave of the Court. By Section 9 of the Companies Act, 1908, a company may by special resolution alter its Memorandum with respect to its objects, but this alteration requires the sanction of the Court, which will

be given where it appears that the alteration is required to enable the company—

(*a*) To carry on its business more economically or more efficiently;
(*b*) To attain its main purpose by new and improved means;
(*c*) To enlarge or change the local area of its operations;
(*d*) To carry on some business which may be conveniently combined with its own; or
(*e*) To restrict or abandon any of its objects.

(2) The company has no power to do anything outside the objects specified in the Memorandum of Association, including whatever may be fairly regarded as ancillary to or consequent upon those objects. Hence a company may properly do—

(*a*) What is within the scope of its objects for the time being, including what is fairly incidental thereto;
(*b*) Such other things as by the Companies Acts, 1908 to 1917, it is permitted or required to do, e.g. to increase its capital and to keep a register of shareholders.

Everything else is *ultra vires* or beyond the powers of a company and therefore void, and the company cannot make it valid even if every member of the company assents to it. On the other hand, the objects of a company, as stated in the Memorandum, must not be illegal; that is to say, they must not purport to authorise anything which is either—

(*a*) Contrary to the general law of the land, e.g. the carrying on of a gambling establishment;
(*b*) Contrary to the provisions of the Companies Acts themselves whether expressed or implied, e.g. the purchase of its own shares by the company, which is in substance a reduction of the capital of the company.

216.—**Articles of Association.** The Articles of Association contain the regulations for the management of the affairs of a company and the conduct of its business, e.g. as to the transfer and transmission of shares, the holding of meetings, the powers of directors, the payment of dividends, the exercise of borrowing powers, etc. The schedule appended to the Companies Act, 1908, contains a model set of regulations of a company, all or any of which may be adopted by a company in its Articles of Association, and these regulations are known as Table A. If a company has no Articles of Association or if it has Articles, then so far as the provisions of Table A are not expressly excluded or modified by its Articles, the rules in Table A apply. The Articles of Association, if any, must be printed and signed by the subscribers to the Memorandum of Association, and each subscriber must sign in the presence of a witness who must attest the signature. Each member

of the company is entitled to a copy of the Memorandum and Articles of Association on payment of 1s., and a copy of every special resolution for the time being in force must be embodied in every copy of the Articles of Association after the passing of the resolution. The Articles of Association, when registered, bind the company and the members thereof to the same extent as if each member had subscribed his name and fixed his seal thereto; and any new regulations adopted by the company are as binding as if they had been inserted in the original Articles.

217.—**Alteration of the Articles.** The regulations of a company are subordinate to and controlled by the Memorandum of Association, which is the dominant instrument, and they must not be illegal in the sense of offending either the general law of the land or the provisions of the Companies Acts, 1908 to 1917. Subject to these two qualifications all or any of the Articles can be altered from time to time by means of a special resolution passed by the members, and a company cannot contract itself out of the power of making such alterations. But on general principles of equity the power must be used *bona fide*, and for the benefit of the company as a whole, and any abuse of the power will be restrained by injunction, e.g. a majority of the members will not be allowed by the exercise of this power to commit a fraud on the minority. But an alteration which benefits the company as a whole may be upheld by the Court even though it operates harshly on an individual shareholder.

Any regulations whether original or substituted which go beyond, or are inconsistent with, the provisions either of the Memorandum of Association or the Companies Acts, will be inoperative, and anything done under the authority of such regulations will be void and incapable of ratification. If, for instance, the Articles, whether as originally drawn up or as altered by special resolution, prohibit members from exercising their statutory right for applying for a winding-up order, or provide for the application of the profits in a manner which is inconsistent with some of the provisions in the Memorandum of Association or purport to confer on the company the power to do anything inconsistent with the Companies Acts or the general law of the country or the company's own Memorandum, the Articles are to that extent invalid and ineffectual.

218.—**Effect of the Articles.** Both Memorandum of Association and Articles of Association require to be registered with the registrar of companies at Somerset House, and are open to public inspection on payment of a small fee Hence, as they are public documents, every person dealing with the company is deemed to have notice of the contents of both the Memorandum

and Articles, so that he is deemed to have notice, not only of the company's powers, but also of the directors' powers, and of any limitations or restrictions imposed upon them by the Articles, e.g. if the Articles provide that a bill of exchange to be effective must be signed by two directors, a person dealing with the company must see that it is so signed, but so long as the act done is not inconsistent with the Memorandum and Articles, the person dealing with the company is not bound to inquire into the regularity of the internal proceedings of the company, but is entitled to assume that the directors have acted properly and that all the necessary steps have been taken. At the same time, if he has notice of some irregularity he cannot claim the benefit of this rule.

219.—**Certificate of Incorporation.** In order to effect the registration of a company the Memorandum and Articles, duly executed, together with the statutory declaration by the solicitor engaged in the formation of the company, or by a person named in the Articles as a director or secretary of the company that the requirements of the Companies Acts have been complied with, must be taken to the registrar of companies.

The registrar, on payment of the prescribed registration fee and stamp duties, files and retains the original Memorandum of Association and Articles of Association, enters the name of the new company on the register, and issues a certificate of incorporation, which will be conclusive evidence that all the requirements of the Acts, in respect of registration and all matters precedent and incidental thereto, have been complied with and that the association is a company authorised to be registered and duly registered under the Acts.

220.—**Effect of Registration.** The effect of registration is that the subscribers to the Memorandum of Association, together with such other persons as may be from time to time members of the company, become a body corporate by the name contained in the Memorandum, capable forthwith of exercising all the functions of an incorporated company and having perpetual succession and a common seal with power to hold land.

221.—**Commencement of Business.** But a company incorporated under the Act of 1908 in any cases where there is an invitation for the public to subscribe for its shares, cannot commence any business or exercise any borrowing powers unless—

(1) Shares held subject to the payment of the whole amount thereof in cash have been allotted to an extent not less on the whole than the minimum subscription as defined by Section 85 of the Companies (Consolidation) Act, 1908.

(2) Every director has paid on each of the shares taken by

him, and for which he is liable to pay in cash, an amount equal to the proportion payable on application and allotment on the shares offered for public subscription.

(3) There has been filed with the registrar a statutory declaration by the secretary or the directors that the aforesaid conditions have been complied with.

(4) If there is no prospectus, a statement in lieu of prospectus has been filed.

Any contract made by a company before it is entitled to start business is not binding on the company until that date, but there is nothing to prevent the simultaneous offer for subscription of both shares and debentures.

SUMMARY

Showing the Principal Formalities required by the Companies (Consolidation) Act, 1908, in the FORMATION and MANAGEMENT of a Public Limited Company.

222.—**Formation.** Incorporation is obtained by filing with the registrar of joint stock companies at Somerset House, London, the following documents:—

(1) A statement of the nominal capital of the proposed company.
(2) *Memorandum of Association.*
(3) Articles of Association (if any).
(4) Notice of the situation of the registered office, i.e. official address.
(5) Forms of consent to act as directors under Section 2 of the Act of 1900.
(6) List of persons who have consented to be directors. (Section 72.)

If these documents are all in order the registrar issues his certificate of incorporation.

223.—**Commencement of Business.** No company which invites public subscriptions for its shares shall, under penalty of £50 a day, commence business or exercise borrowing powers unless—

(*a*) Shares have been allotted for the amount of the minimum subscription;
(*b*) The directors have taken their qualification shares (if any) and paid thereon the same amount as is payable on application and allotment by other subscribers, and
(*c*) A statutory declaration by one of the directors, or the secretary, has been filed that (*a*) and (*b*) have been complied with. (Section 87.)

224.—**Allotments of Shares.** No first allotment of shares offered for public subscription is to be made unless the whole amount has been subscribed or such less amount as may have been fixed by the company's Memorandum and Articles of Association, and named in the prospectus as the minimum cash subscription on which the directors may proceed to allotment. (Section 85.)

Allotments made contrary to the above conditions are voidable at the instance of the applicant within one month after the statutory meeting. Any directors offending are liable to compensate the company and the allottee. (Section 86.)

225.—**Statutory Meetings.** Not less than one nor more than three months from the date at which a company is entitled to commence business, a statutory meeting must be held, and not less than seven days before the meeting the directors must forward to every member of the company and to the registrar of joint stock companies a report certified by two directors, or the sole director and manager, stating :—

(*a*) Total number of shares allotted, amounts paid, and other considerations for allotment.

(*b*) Total amount of cash received in respect of shares.

(*c*) An abstract of the receipts and payments on capital account to date of report, and an account of preliminary expenses.

(*d*) Names, addresses, and descriptions of directors, auditors, managers, and secretary.

(*e*) Particulars of any contracts proposed to be modified, and particulars of proposed modifications.

At the meeting a list of members with their names, addresses, and descriptions, and number of shares held by each must be produced. Any matter arising out of the formation of the company or the report may be discussed, but no resolution can be passed unless notice is given in accordance with the Articles. (Section 65.)

If the report is not filed or the meeting is not held, a petition to wind up may be presented and an order made for payment of costs by defaulters.

226.—**Prospectuses.** Every circular, notice, advertisement, or other invitation offering to the public, for subscription or purchase, any shares or debentures must be dated and signed by every director or his authorised agent and a copy filed before issue, and every prospectus issued must state that a copy has been filed (Section 80). It must also state (Section 81) :—

(*a*) The contents of the Memorandum of Association, the names, descriptions, and addresses of the signatories, and number of shares subscribed for by them. The number of founders' or management shares, and the

nature and extent of the holders' interest in the property and profits of the company.

(*b*) and (*c*) The qualification (if any) and remuneration of directors and their names, addresses, and descriptions.

(*d*) The minimum subscription on which allotment may take place, the amounts payable on each share on application and allotment, and (if any) the amount of shares previously offered for subscription and allotted, and the amount paid thereon.

(*e*) Number, amount of, and consideration for shares or debentures issued or agreed to be issued other than for cash, and the extent to which they are to be treated as paid up.

(*f*) The names and addresses of all vendors, the purchases from whom have not been completed, or who are to be paid wholly or partly out of the proceeds of the issue, and the amount payable to each in cash, shares, or debentures.

(*g*) The amount paid or payable for goodwill (if any).

(*h*) The amount and rate of commission paid or payable (if any) for subscribing or procuring subscriptions, i.e. underwriting commission.

(*i*) The amount or estimated amount of preliminary expenses.

(*j*) The amount payable to any promoter and the consideration therefor.

(*k*) Dates of, and parties to every material contract, and the time and place where copies may be seen.

(*l*) The names and addresses of the auditors (if any).

(*m*) Particulars of the interest of every director in the promotion or property to be acquired, and a statement of all sums paid, or to be paid to him, in cash or shares.

(*n*) The right of voting conferred upon each class of shareholders.

When a prospectus is published in a newspaper item (*a*) may be omitted.

Any conditions requiring or binding applicants for shares or debentures to waive compliance with any of the requirements as to the contents of a prospectus is void (Section 81), but a director will not be liable for any omission :—

(1) If he did not know of the matter not disclosed, or

(2) If his non-compliance was due to an honest mistake of fact on his part.

ipations of the members.

(*b*) A statement of the shares, with their distinctive numbers, held by each member.
(*c*) The amount paid or considered as paid thereon.
(*d*) The date of entry of each name on the register.
(*e*) The date on which any person ceased to be a member. Penalty for default, £5 a day. (Section 25.)

The register must be kept at the registered office of the company and be open for the inspection of members gratis, and others on payment of one shilling (Section 30), except when closed under Section 31 for not more than thirty days during each year.

(2) *Register of Directors or Managers, containing—*
The names, addresses and occupations of the directors or managers. The register must be kept at the registered office of the company, and a copy must be lodged with the registrar of joint stock companies, at whose office the register is open for public inspection. All changes in the directorate, or if there be no directors, in the management, must be notified to the registrar. (Section 75.)

(3) *Register of Mortgages, containing—*
(*a*) A short description of the property mortgaged or charged.
(*b*) Amount of charge created.
(*c*) Names of persons entitled to the mortgage or charge. Penalty for default, £50. (Section 100.)

This register must be kept by the company at its registered office, and is distinct from the register of mortgages and charges to be kept by the registrar of joint stock companies. The company's register is open for inspection by members and creditors without charge, and to other persons at a fee not exceeding one shilling. (Section 101.)

(4) *Minute-Books.* Every company must cause minutes of the proceedings of general meetings and directors' meetings to be duly recorded in a special book kept for the purpose.

(5) *Annual Summary.* Copies of these must be kept, and they are usually entered at the end of the Register of Members.

228.—**Returns to be made to Registrar of Joint Stock Companies.**

(1) *Annual Summary and List of Members,* which is made up on the fourteenth day after the day on which the ordinary general meeting is held in any year, signed by the manager or secretary of the company (Section 26), and filed with the registrar of joint stock companies within the next seven days, showing—
(*a*) The names and addresses of the present members and of

past members who were members at the date of the last return.

(*b*) The amount of capital and the shares into which it is divided.

(*c*) The number of shares taken since the commencement of the company.

(*d*) The amount of calls made on each share.

(*e*) The total amount of calls received and calls unpaid and of shares forfeited.

(*f*) The amount paid for underwriting shares and debentures since the last return.

(*g*) The number of share warrants, and the number of shares comprised in them.

(*h*) A list of the directors.

(*i*) The total amount of the debts secured by mortgages and charges.

(*j*) A balance sheet showing capital, liabilities, and assets.

(*k*) Particulars as to the names and nationality, and former names or nationalities in case of a change, are now required in respect of directors by the Companies (Particulars as to Directors) Act, 1917.

Penalty for default, £5 a day.

(2) *A Return of Allotments* of shares made must be filed with the registrar of companies within one month from date of allotment, showing—

(*a*) The number, nominal amount of shares, and the names, addresses, and descriptions of allottees, and the amounts paid or payable on each share.

(*b*) The number and nominal amount of shares allotted for considerations other than cash, the extent to which the shares are to be treated as paid up and the considerations for allotment.

Penalty for default, £50 a day. (Section 88.)

229.—**Notices to be given to Registrar of Joint Stock Companies.** The following notices must be filed with the registrar:—

(1) Notice of the passing of every special and extraordinary resolution, and a printed copy thereof.

Penalty for default, £2 a day. (Section 70.)

(2) Notice of the situation of the registered office and of any change therein.

Penalty for default, £5 a day. (Section 62.)

(3) Notice of any consolidation or division of capital or conversion of stock into shares, or shares into stock. (Section 42.)

(4) Notice of reduction of capital by filing of the order and approved minute. (Section 51.)
(5) Notice of rectification of the register under an order of the Court. (Section 32.)
(6) Report for statutory meeting. (Section 65.)

230.—**Registration of Mortgages and Charges.** Every mortgage or charge created by any company for the under-mentioned purposes, so far as the same confers any security on the undertaking or property of the company, is void against the liquidator of the company and against any creditor unless filed with the registrar of joint stock companies and registered by him in a special register to be kept by him, within twenty-one days after the date of the creation of such mortgage or charge, and a certificate of registration obtained therefor :—

(*a*) For securing an issue of debentures.
(*b*) Mortgage or charge of uncalled capital.
(*c*) Mortgage or charge of chattels.
(*d*) Mortgage or charge on any land.
(*e*) Mortgage or charge on any book debts.
(*f*) Floating charge. (Section 93.)

231.—**Appointment and Qualifications of Directors.** No person can be appointed a director by the Articles of Association, nor can any person be named as a director in any prospectus unless before registration of the Articles or publication of the prospectus he or his agent duly authorised :—

(1) Signs and files with the registrar of joint stock companies a consent to act, and
(2) Signs the Memorandum for a number of shares, not less than his qualification (if any), or signs and files a contract to take the same. (Section 72.)

This provision does not apply to private companies nor to prospectuses issued more than one year after the date upon which the company is entitled to commence business.

The qualification of every director must be acquired by him within two months from the date of his appointment or such less time as the Articles may fix. In default his office is vacated and he is incapable of reappointment until his qualification has been obtained.

Penalty for an unqualified person acting as director, £5 a day. (Section 73.)

232.—**Audit and Auditors.** An auditor or auditors must be appointed, and his or their remuneration fixed at each annual ordinary general meeting of the company. In default the Board of Trade may appoint auditors on application of any member. (Section 112.)

A director or officer of the company is not eligible. (Section 112.

The directors may, before the statutory meeting, appoint th first auditors and fix their remuneration, but these may b removed by the members in general meeting (Section 112). Th directors may fill casual vacancies. (Section 112.)

Every auditor shall have a right of access at all times to th books, accounts, and vouchers of the company and to any informa tion he requires. (Section 113.)

The auditors must sign a certificate at the foot of the balanc sheet stating whether or not all their requirements have bee complied with, and make a report which must be read at th meeting of the shareholders on the accounts and balance sheet, an state whether the balance sheet is properly drawn up and exhibit a true and correct view of the company's affairs, as shown by th books. (Section 113.)

233.—**False Statements.** Any person wilfully making statement false in any material particular in any return, report or other document required by the Act, is guilty of a misdemeanou and liable to two years' imprisonment with or without har labour and a fine of £100. (Section 281.)

Chapter XXIV

FINANCING A PUBLIC LIMITED COMPANY

234.—**Sources of Finance.** There are three classes of persons who are engaged in directing the flow of capital into public limited companies, and who are occupied in establishing a connection between those who have capital to invest and those desirous of finding employment for the capital of others. These are company promoters, brokers, and underwriters. Bankers are not here included since it is not a legitimate function of theirs to have capital permanently invested in a company, but rather to lend money on short loan which can easily be recalled.

235.—**The Promoter.** The term "promoter" is a business expression which usefully connotes in a single word a number of business operations familiar to the commercial world, by which a company is brought into existence.

The promoters of a company include all those persons who float a company or bring it into existence by taking an active part in forming it, and in procuring persons to join it as soon as it is technically formed. Whether a particular person is or is not a promoter is a question of fact to be determined by the circumstances of each case, having reference to the definition given. But every person who is held to be a promoter of a company stands in a fiduciary relation to the company he promotes and to those persons whom he induces to become shareholders in it. Hence a promoter must not make either directly or indirectly any kind of profit at the expense of the company he promotes without the knowledge and consent of the company, and if he does make a secret profit in disregard of this rule, the company can compel him to account for it.

236.—**The Underwriter.** An underwriter means a person who undertakes on the occasion of shares being offered by a company to the public for subscription to underwrite a specified amount of what is to be offered upon the footing that he is only to be bound to take up his rateable proportion of what the public do not take up, and that in any event he has to be paid a commission for his services either in cash or in paid-up shares or in some other form. By the Companies (Consolidation) Act, 1908, a company may lawfully pay a commission to any person in consideration of his subscribing or agreeing to subscribe whether

absolutely or conditionally for any shares in the company, provided :—

(a) That the payment of the commission is authorised by the company's Articles.

(b) The proposed payment does not exceed the amount or rate authorised by the Articles, and

(c) The payment and its amount or rate is disclosed in the prospectus.

237.—**Brokerage.** A company may also lawfully pay a reasonable commission, e.g. 2½ per cent. by way of brokerage to a broker for his services in placing shares; that is, for finding other persons who are willing to subscribe for shares without himself coming under any liability to take any of them.

But save as aforesaid, no company can lawfully apply any of its shares or capital money directly or indirectly in payment of any commission, discounts, or allowances to any person subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in the company.

238.—**Share Capital.** Capital is the money subscribed by the shareholders for the purpose of the company and may be divided into—

(1) *Nominal, Registered, or Authorised Capital.* This is the amount set out in the Memorandum of Association as the maximum which the company has power to issue, say 100,000 shares of £1 each. The stamp duty payable upon registration is based upon this sum.

(2) *Issued and Subscribed Capital.* This is the capital represented by the number of shares that have been issued for cash, and to the vendors as fully or partly paid, say £60,000, thus leaving £40,000 *Unissued Capital* to be issued later if required.

(3) *The Called-up Capital.* This is the amount of money called up on the shares actually issued. A company does not necessarily require the full amount at once on the shares it has issued, and therefore calls up only such as it needs, hence the use of the term. For example, if 10s. per share is called up on 60,000 shares of £1 each, the total amount called up equals £30,000, leaving £30,000 still uncalled.

(4) *Paid-up Capital.* This is that part of the called-up capital which has actually been received in cash by the company. For example, of the £30,000 called up, only £29,900 was received, thus leaving £100 unpaid as calls in arrear.

(5) *Working Capital.* This is the amount left, after purchasing a business, for carrying on the undertaking. It will be seen that the term includes money paid for debentures, which are not really capital in the strict sense. Thus, if a company had an initial capital of £69,000

derived from the sale of shares and debentures, and paid £30,000 of it for a business, then £39,000 would remain as working capital.

239.—**Classes of Shares.** The capital of a company may be and usually is divided into various kinds of shares, e.g. ordinary, deferred, preferred or preference, guaranteed, preferred and deferred ordinary, and founders' shares. The names vary in meaning in different companies, according to the wording of the articles, the prospectus and the share certificate.

The shares may be issued at a premium, but not at a discount, as that would bring about an unauthorised reduction in capital. The two apparent exceptions to the latter rule are capable of explanation, viz. :—

(1) The re-issue of forfeited shares at a discount not exceeding the amount paid by the former holder. In this case the company receives the face value, the discount having in effect been paid by the former holder.

(2) The payment of underwriting commission for an agreement to take shares if the public fails to do so. In this case the underwriter is responsible for the full amount of any shares allotted to him. His commission is regarded as an expense incidental to the raising of capital. If the company became insolvent his liability would still exist, but his commission, if unpaid, might remain unpaid in whole or in part.

240.—**Deferred Shares** stand in the same relation to ordinary shares as the latter do to preference shares. Founders' shares are deferred shares allotted to the founders or promoters of a company and receive no dividend until the preference and the ordinary shares have been paid a prescribed dividend, e.g. they may be entitled to half the profits after a dividend of say 10 per cent. has been paid on the ordinary shares. Founders' shares are sometimes offered to subscribers for ordinary shares, one founders' share being given with so many ordinary shares as an inducement to subscribe freely. The chief objections to *founders' shares* are :—

(1) They weaken the company financially by absorbing profits which might otherwise form a reserve.

(2) The market value of the ordinary shares is reduced in consequence.

(3) They form obstacles to any proposal for reconstruction.

241.—**Preference Shares.** There are two kinds of *preference shares*, namely :—

(1) Those which confer preferential rights as to dividend only, and

(2) Those which give a preference in the distribution of the capital of the company in the event of a winding-up as well as in the payment of dividends in the meantime.

In either case, the preferential dividend may be either—

(*a*) *Cumulative*, i.e. if not paid in one year then the arrears will be payable in full out of the profits of subsequent years, or

(*b*) *Non-cumulative*, that is, payable out of the profits of each year only.

The arrears of dividend on cumulative preference shares are a *contingent liability* only and do not become due till profits are actually available for dividend. Moreover, in the absence of [illegible] ers cannot prevent profits [illegible] evious years, nor can they [illegible] to reserve.

A class of shares which have recently come very prominently into the public eye are *cumulative participating preference shares*, which are preference shares giving a cumulative dividend of, say, 6 per cent. and then having the right to participate in the remaining profit [illegible] received a certain percenta[illegible] shares have been paid, say, 6 per cent., the preference shares may also get 25 per cent. of the balance of the profits, the remainder going to the ordinary shareholders.

242.—**Stock.** If and when shares have been paid up, they may be converted into stock, and stock may be reconverted into shares. The difference between stock and shares is that—

(1) Stock must necessarily represent fully paid-up shares, whereas shares may or may not be fully paid up.

(2) Stock can be split up into fractional amounts, whereas shares are each of some definite amount and cannot be subdivided. If, for instance, you are the owner of £100 of stock in the Midland Railway Co., you may sell any part of that stock, e g. £25 or even an odd amount like £79, but if you have a share in Jones & Co. Ltd., you cannot split up the share and sell it. Usually the regulations of a company restrict the fractional amounts, say to even pounds, otherwise odd pence may be transferred.

243.—**Reserve Capital.** By the Companies (Consolidation) Act, 1908, a company may by special resolution declare that any portion of its capital which has not been already called up shall not be capable of being called up, except in the event of and for the purpose of the company being wound up. Capital which can only be called up on winding-up is called reserve capital, and it cannot be turned into ordinary capital unless with the permission of the Court, and it cannot be dealt with or charged by the directors.

244.—**Distribution of Assets among Contributories.**

Where there are both preference and ordinary shares, the holders cf both classes of shares are, subject to any provisions to the oontrary, both entitled to share (on equality) in the assets of the company after paying off the whole of the paid-up capital, and if the ordinary shares are only partly paid up, whereas preference shares are fully paid up, the liability of the ordinary shareholders for the unpaid balance of their shares must not be disregarded. Uncalled capital may be called up in order to adjust the rights of members as between themselves. The assets available for distribution are to be applied :—

(1) In discharging all debts and liabilities of the company, viz. :—

(*a*) The costs of liquidation, including the remuneration of the liquidator.

(*b*) The debts having a priority in law.

(*c*) The ordinary debts.

(2) In repaying to the ordinary and preference shareholders the capital actually paid up on their shares, and

(3) The surplus is, subject to any agreement to the contrary, to be distributed amongst all the shareholders not in proportion to the amounts paid up on their shares, but in proportion to the nominal amount of the share capital held by them respectively.

245.—**Issue of Different Classes of Shares.** A company has the power to issue preference shares, if it is authorised so to do by its Articles, either as originally drawn up or as altered by special resolution, provided that the Memorandum of Association contains nothing to the contrary. Even though the company may have no authority under its Memorandum or Articles to create any preference between different classes of shares, it may at any time alter its Articles so as to authorise the directors to create and issue new shares with preferential rights attached to them, because mere silence in the Memorandum as to the issue of special classes of shares does not amount to an implied condition of equality as between the shares in the capital of the company.

On the other hand, if the conditions as to the relative rights of different classes of shares are inserted without any qualification in the Memorandum of Association, they are unalterable. But if the Memorandum after satisfying the rights of different classes of shares goes on to provide for their alteration by the company in the manner mentioned in the accompanying Articles of Association, they may be varied in the manner prescribed.

246.—**Borrowing Powers.** Every trading company has an implied power to borrow money for the purposes of trading because the power to borrow money may properly be regarded as being

fairly ancillary or incidental to the object of every trading company. But according to the Companies Act, 1908, the power to borrow cannot be exercised until the minimum subscription has been subscribed. If a company has power to borrow, it has also power to mortgage or charge its property by way of security for repayment of the loan. A company may even mortgage or charge its uncalled capital if the regulations of the company in so many words allow it to do so, or even if they contain words wide enough to cover it, e.g. power to mortgage the company's assets or property and rights, but a power to borrow on the property of the company is not sufficient because uncalled capital is only property potentially, that is to say, if and when it is called up. Usually the Articles authorise the directors to exercise the borrowing powers of the company. In some cases the Memorandum of Association limits the borrowing powers of a company to a specific sum, e g. that the company must not borrow more than two-thirds of its paid-up capital for the time being. But generally there is no limit imposed by the Memorandum; and as there is no limit imposed by the Companies Act, a company having power may borrow as much money as it requires or can raise subject to the provisions of its Articles. If a company borrows in excess of its powers, the transaction is *ultra vires* the company and therefore void, and any securities given by the company are inoperative, and the lender has no right of action in respect of the loan against the company itself, but—

(1) He may have a right of action against the directors personally for the breach of their implied warranty that the company had authority to borrow.

(2) If the lender intervenes before the borrowed money has been spent, he has the right to restrain by injunction the company from spending the money.

(3) Even if the company has spent the money, the lender may be entitled if it has been applied in paying off debts owing to creditors of the company to stand in the place of and to be subrogated to the rights of such creditors in their capacity as ordinary creditors of the company on the grounds that a company which borrows money to pay off debts which are already in existence and which could have been enforced against the company does not thereby increase its liabilities.

247.—**Methods of Borrowing.** A company which has power to borrow may borrow in whatever manner it thinks fit, and it may therefore raise the money either on a legal mortgage on any specific portions of its property or by an equitable mortgage by deposit of title deeds or by a floating charge on all the property of the company or by bonds or promissory notes or by the issue

of debentures or debenture stock creating a floating charge, but by the Companies Act, 1908, every mortgage or charge created by a company and being either—

(1) A mortgage or charge for the purpose of securing any issue of debentures, or
(2) A mortgage or charge on uncalled capital, or
(3) A mortgage or charge created or evidenced by an instrument which if executed by an individual would require registration as a bill of sale, or
(4) A mortgage or charge on any land, or
(5) A mortgage or charge on book debts, or
(6) A floating charge on the undertaking or property of the company,

must be filed with the registrar of joint stock companies within twenty-one days of its creation. If not so filed it will be void against the liquidator and any creditor of the company so far as any security on the company's property or undertaking is thereby conferred, but without prejudice to any contract or obligation or repayment of the money thereby secured. If by accident or inadvertence registration is not effected within the time stipulated by the Act, the Court may order the time to be extended, but without prejudice to the rights of third parties acquired against property of the company prior to the date of actual registration. The register is open to the inspection of any person on payment of not more than one shilling, and it must state:—

(*a*) Total amount secured by the mortgage or charge.
(*b*) Dates of the resolutions creating the charge and the covering deed, if any, by which the security is created or defined.
(*c*) A general description of the property charged, and
(*d*) In the case of debentures the names of the trustees for debenture holders.

248.—**Nature of a Debenture.** A debenture is simply a debt, the word being derived from the Latin *debeo*, meaning "I owe." A debenture holder in a company is therefore a creditor of the company. Further, the debt is secured on the whole or a portion of the company's property, and an instrument is drawn up to that effect. Hence, more fully, a debenture is an instrument executed under the seal of a company charging the whole or a portion of its assets in favour of the holder or holders, as security for a certain sum of money. It also provides for the payment of interest at a certain definite rate so long as the principal is not repaid. There may be only one large debenture or there may be a series each securing the same sum, and ranking *pari passu* in regard to charge. Thus a debenture is a definite unit, and as

such is not divisible. One person may, however, hold a number of *such units.*

249.—**Debenture Stock.** When debentures are consolidated, they are known as debenture stock. Debenture stock has the same attributes as regards charge, security, and interest, except that the stock is capable of being subdivided.

250.—**Security of Debenture.** The amount secured may be made payable to the registered holder only, or to bearer. In the former case, transfer can only be effected by duly stamped instruments; in the latter case, by simple delivery. The charge may be "fixed" or "floating." The charge may be fixed upon freehold property or other permanent assets, and hence the security cannot sensibly fluctuate or depreciate. A "floating" charge may exist upon the whole undertaking, and hence the stock-in-trade and other liquid assets may fluctuate from time to time in the course of business.

251.—**Form of Debenture.** The usual provisions found in a debenture are shown in the specimen on page 214. These are:—

(1) A covenant for the repayment of the principal after a named date.

(2) A covenant for payment of interest at a named rate.

(3) A statement charging with such payments the company's undertaking and all its property whatsoever and wheresoever, both present and future, including its uncalled capital.

(4) Issued subject to conditions indorsed on the back. These conditions refer to mode of transfer; right to inspect the register; provisions for repayment at an earlier date, if necessary; place where interest is payable, etc.

(Registered with the Registrar of Companies, 24th August 1924)

R. E. JONES & CO. LTD.

REGISTERED OFFICE :
140 QUEEN STREET,
CARDIFF.

Debenture

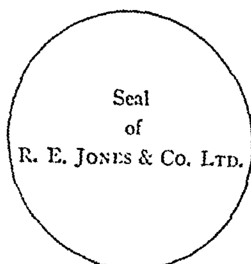
No. 751 £100

1. R. E. JONES & CO. LTD. (hereinafter called 'the company'), will on the 1st day of January 1930, or on such earlier day as the principal money hereby secured becomes payable in accordance with the conditions indorsed hereon, pay to Mr. WM. GREEN, of 145 Sketty Road, Sketty, Swansea, or other, the registered holder hereof for the time being, his executors, administrators, or assigns, the sum of One hundred pounds.

2. The company will in the meantime pay to such registered holder interest thereon at the rate of five per centum per annum, by half-yearly payments on the 1st day of July and the 1st day of January in each year, the first of such half-yearly payments to be made on the 1st day of January next.

3. The company hereby charges with such payments its undertaking and all its property whatsoever and wheresoever, both present and future, including its uncalled capital for the time being.

4. This debenture is issued subject to the conditions indorsed hereon, which are to be deemed part of it.



Given under the common seal of the company, this 19th day of August 1924.

The common seal of the company was affixed hereto in the presence of

ROGER GRAY, JOHN WHITE — *Directors.*
RICHARD BLACK, *Secretary.*

Chapter XXV

THE MANAGEMENT AND CONDUCT OF THE BUSINESS OF A PUBLIC LIMITED COMPANY

252.—**The Function of Directors.** A company, being an artificial person, must act through agents. The persons through whom a business is carried on or superintended are called the directors of the [illegible] shareholders [illegible] they con- [illegible] shareholders.

Hence they are justified in trying to influence and secure votes for this purpose, and any expenses *bona fide* incurred in the interests of the company for that purpose, e.g. for printing, posting, and stamping proxies, are properly payable out of the funds of the company.

253.—**Relation of Directors to the Company.** Directors occupy a twofold position towards the company :—

(1) They are the agents of the company, hence—

(*a*) Where directors make a contract in the name of or purporting to bind the company, it is the company which is liable and not the directors personally.

(*b*) Where directors contract in their own name but really on behalf of the company, the other party on discovering that the company is the real principal can sue the directors or the company on the contract.

(*c*) Where directors enter into a contract which is within the powers of the company, but beyond the powers of the directors, the company—like any other principal—can ratify the contract by an ordinary resolution passed by a majority of the members.

(2) Directors stand in a *fiduciary* position towards the company, and to a certain extent are trustees for the company, *e.g.* :—

(*a*) They are entitled to the benefit of any statute of limitations which can be pleaded by an ordinary trustee, and

(*b*) They are trustees for the company of their powers of allotting shares, making calls, and approving transfers. But they are trustees for the company as a whole and not for each individual [illegible]

On general principles of equity a person who stands in a fiduciary position to another must not make any secret profit or take any advantage at the expense of the latter. Hence—

(1) Any secret benefit obtained by a director by reason of his position whether it be in the form of a commission or cash, or a present of qualification shares, is regarded as a bribe, and the director is accountable to the company for the amount.

(2) A director cannot *prima facie* enter into a contract with the company of which he is a director, because if he were allowed to do so his own private interest would be in conflict with his duty to the company.

There are two qualifications to this rule, viz. :—

(*a*) Directors may contract to take shares and debentures of the company, and

(*b*) The regulations of the company may and usually do provide that a director may make contracts or be interested in contracts with the company, but he has to disclose the nature of his interest to the board of directors, and he has not himself to vote in regard to the matter.

(3) Directors cannot pay themselves for their services or make presents to themselves out of the company's assets, unless authorised so to do by the regulations of the company, or a resolution, e.g. directors who are paid for their services are not entitled in the absence of a resolution passed by the general body of shareholders or a provision in the Articles to be paid out of the assets of a company for travelling to meetings.

254.—**Liability of Directors.** Inasmuch as directors are trustees of any monies of the company which have come into their hands or are under their control, if they part with any of the company's money in pursuance of a transaction which is *ultra vires* a company, e.g. in the payment of dividends when they know that no profits have been made, they are personally liable, and the fact that they acted *bona fide* and with the approval of the majority of the shareholders is no defence to an action by the company. But if the act impeached was *intra vires* in one state of affairs and *ultra vires* in another, and the directors honestly mistook the facts, e.g. they believed there were profits when there were none, they will not be liable. Hence if the director applies the money of a company or exercises any of its powers in a manner not *ultra vires* the company, he cannot be liable for a mere act of imprudence or a mere error of judgment, and in order to make him personally liable it must be proved:—

(1) That he acted *mala fide*, which is fraudulently or dishonestly;

(2) That he has been guilty of such negligence as is, in a business sense, culpable or gross, including those cases in which the Court is satisfied that he did not really exercise his judgment or discretion at all; or

(3) That he has been guilty of some positive misfeasance or breach of trust, e.g. by making a secret profit at the expense of the company, or by applying the funds of the company to *ultra vires* purposes.

255.—**Registration of Names of Directors.** According to the Companies (Consolidation) Act, 1908, every company is bound to give in the annual return made in each year the names and addresses of the persons who at the date of the return are the directors of the company, or occupy the position of directors by whatever name called, and by the Companies (Particulars as to Directors) Act, 1917, it is required to include in the list "any person in accordance with whose directions or instructions the directors of the company are accustomed to act." (Section 3)

In addition to the particulars in respect of directors required by Section 26 of the Act of 1908, there are to be given such particulars as to directors as would be required to be furnished under The Business Names Act, 1916, if they were partners, and in like manner the register of directors to be kept under the Act of 1908, and the notifications of alterations therein, are to contain these particulars. The particulars thus required in regard to the directors are:—

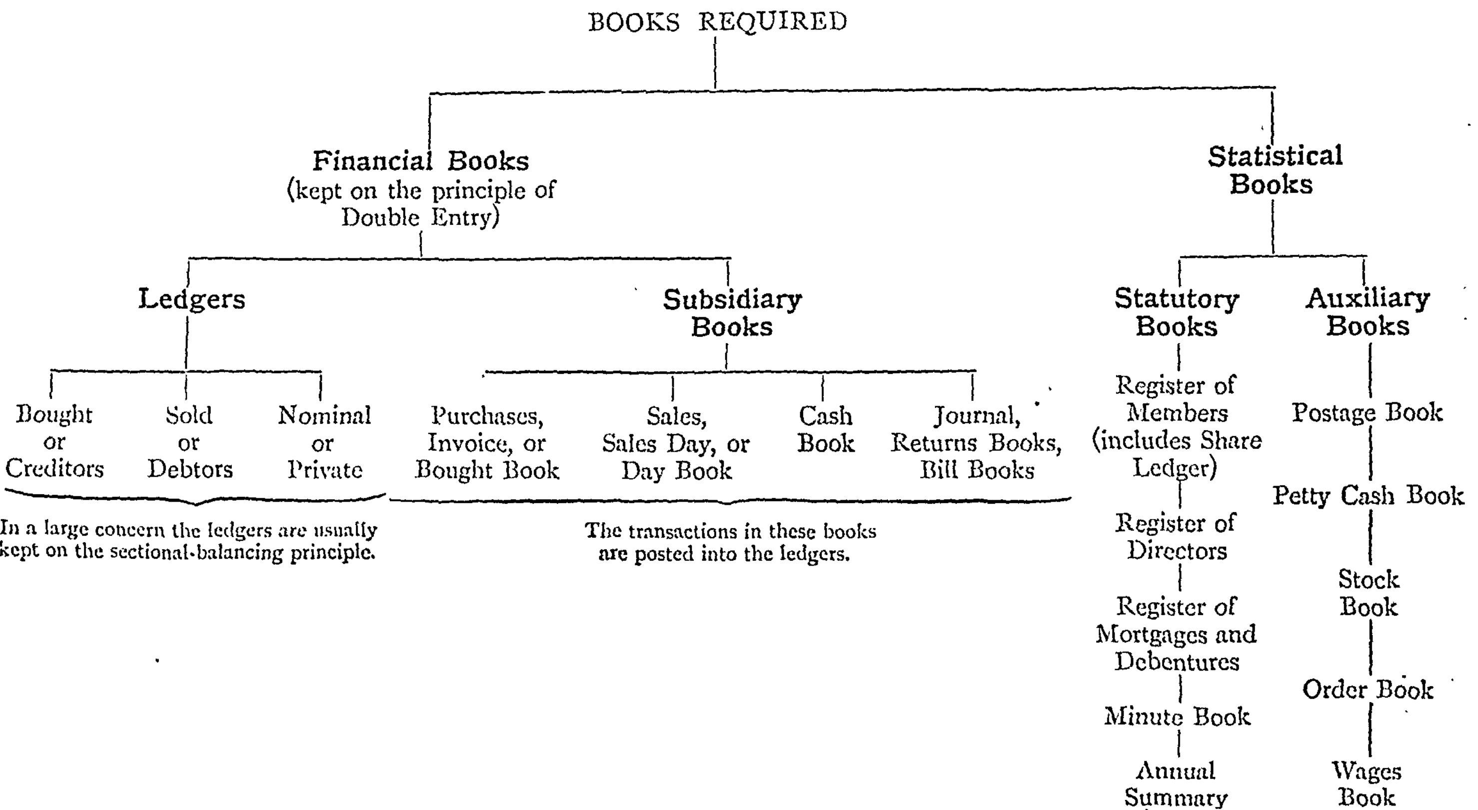
(1) Present and former names in full;

(2) Nationality, and

(3) If nationalised, the country of origin of each director.

The effect of the Companies (Particulars as to Directors) Act, 1917, is that every British company registered after 22nd November 1916, and every foreign company establishing a place of business in the United Kingdom after that date, will be subject to the same restrictions as apply to sole traders and partnerships under the Registration of Business Names Act, 1916. (See page 181.)

256.—**The Accounts of a Company.** One of the most important branches of company work is the keeping of a proper record of transactions with the outside world The Companies (Consolidation) Act, 1908, does not deal with the accounts, but the *Articles of Association* of a company almost invariably deal with them. Clause 103 of Table A requires the directors to cause true accounts to be kept of:—


ACCOUNTS OF A PUBLIC LIMITED COMPANY
BOOKS REQUIRED
Financial Books (kept on the principle of Double Entry)
Statistical Books
Ledgers
Subsidiary Books
Statutory Books
Auxiliary Books
Bought or Creditors
Sold or Debtors
Nominal or Private
Purchases, Invoice, or Bought Book
Sales, Sales Day, or Day Book
Cash Book
Journal, Returns Books, Bill Books
In a large concern the ledgers are usually kept on the sectional-balancing principle.
The transactions in these books are posted into the ledgers.
Register of Members (includes Share Ledger)
Register of Directors
Register of Mortgages and Debentures
Minute Book
Annual Summary
Postage Book
Petty Cash Book
Stock Book
Order Book
Wages Book

(1) The sums of money received and expended by the company, and the matters in respect of which such receipts and expenditure take place; and of

(2) The assets and liabilities of the company.

The accounts are usually kept on cards, loose leaves, or in bound books. The loose-leaf system is one in which pages are capable of being removed from or inserted into the binder by means of a locking arrangement. While such ledgers are in use they are very similar to bound books and may be treated in the same manner.

The advantages of this system, some of which apply to the card system, may be stated as follows:—

(1) The binding can at any time be released so that pages may be inserted or removed.

(2) There is no need to have more pages than there are accounts in use.

(3) Such books are less bulky, more easily handled, and more convenient for reference.

(4) When a page is filled up, instead of transferring the account from that page to another page some distance off, another leaf may be inserted behind the one filled up, so that the relative order never varies in the accounts

(5) When opening an account for a new customer, a new sheet may be inserted at a point which enables the accounts to be kept in alphabetical order. Consequently an index is not required.

(6) Specially ruled pages can be inserted

In many concerns, *bound books* are still used, and in their favour it may be said that it is easier to detect whether pages have been extracted or whether there has been any tampering with the accounts where such books are used.

The details connected with the records of different businesses vary considerably although the fundamental principles of accounting are the same. The student who has thoroughly mastered the principles of double entry will experience little difficulty in dealing with the accounts of a limited company.

The diagram on page 218 shows the principal books which are used in keeping the accounts of a company. They fall into two main groups, viz.:—

(1) The *Financial Books*, which are essential for recording the transactions according to the principles of double entry.

(2) The *Statistical Books*, consisting of the statutory and auxiliary books, which are used chiefly for the purposes of registration, and to relieve the financial books of account of the mass of detail which is necessarily connected with the raising of a company's capital.

257.—**Statutory Books.** The books which a limited company is required by law to keep are:—

(1) *Register of Members and Share Ledger.* This must contain the following particulars—

(*a*) The names, addresses, and occupations (if any) of the members; and in the case of a company having a share capital, a statement of the shares held by each member, distinguishing each share by its number, and of the amount paid or agreed to be considered as paid on the shares of each member;

(*b*) The date at which each person was entered in the register as a member;

(*c*) The date at which any person ceased to be a member. No trusts, however, are to be entered on the register. The register must be kept at the registered office of the company and must, for not less than two hours each day, be open to the inspection of members gratis and any other person on payment of a fee not exceeding 1s. Any member or other person may obtain a copy of the register or of any part of it, or of the list and summary required by the Act, or any part of it, on payment of the prescribed fee.

(2) *Register of Directors and Managers.* Every company must keep at its registered office a register containing the names, addresses and occupations of its directors or managers, and send to the registrar of companies a copy thereof, and from time to time notify to the registrar any change among its directors or managers.

(3) *Register of Mortgages and Charges.* In this must be entered all mortgages and charges specifically affecting property of the company, giving in each case a short description of the property mortgaged or charged, the amount of the mortgage or charge, and (except in the case of securities to bearer) the names of the mortgagees or persons entitled thereto.

(4) *Register of Debenture Holders.* This is implied by Section 102 of the Act, which requires every register of debenture holders of a company, except when closed in accordance with the Articles (not exceeding thirty days in any year), to be open to the inspection of the registered holder of any such debentures, and of any holder of shares in the company, for not less than two hours in each day. Every such holder may, on payment of the prescribed fee, require a copy of the register or any part of it, or a copy of any trust deed for securing any issue of debentures.

(5) *Minute Book.* Every company must cause minutes of all proceedings of general meetings and (where there are directors or

managers) of the meetings of its directors or managers to be entered in books kept for that purpose. Any such minute if purporting to be signed by the chairman of the meeting at which the proceedings were had, or by the chairman of the next succeeding meeting, is evidence of "

(6) *Annual List of* "

258.—**Auditors.** Act, 1908, every company must at each annual general meeting appoint an auditor, not being an officer of the company, and in default the Board of Trade can appoint one. The auditor has a right of access to the books and papers of the company. He must sign a certificate at the foot of the balance sheet stating whether or not all his requirements as auditor have been complied with, and must report to the shareholders whether the balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs, and the company has no power to make resolutions precluding its auditor from availing himself of all the information to which he is entitled under the Act as being material for the report to be made by him to the shareholders.

259.—**Auditor's Chief Duty.** The main business of an auditor is to ascertain and state the true financial position of the company at the time of the audit, but it is no part of his duty to give advice, and he has nothing to do with the way in which the business of the company is carried on, and so long as he acts honestly and with reasonable care he cannot be made personally liable. But a duly appointed auditor is an officer of the company, and if he commits a breach of duty he may be held liable in damages.

260.—**Kinds of Meetings.** A meeting of the shareholders of a company may be either—

(1) An ordinary general meeting, that is to say, one held at a fixed date prescribed by the regulations of the company for the transaction of business generally. An ordinary meeting which is called the annual general meeting of the company must be held at least once in each year.

(2) An extraordinary general meeting, that is, one held as occasion may require it for the transaction of some particular business which must be specified in the notice convening the meeting. By the Companies (Consolidation) Act, notwithstanding anything in the regulations of the company, the directors must, on the requisition of the holders of one-tenth of the issued capital of the company, call an extraordinary general meeting, and in default the requisitionists may themselves convene the meeting.

(3) The statutory meeting of the company. By the Companies (Consolidation) Act, 1908, a company must hold a gene

meeting within not less than one month and not more than three months from the date at which it is entitled to commence business, and the meeting is called the statutory meeting of the company. A list of members of the company must be produced at the meeting, and seven days before the meeting a report must be sent to all the shareholders stating—

(*a*) The number of shares allotted, how much has been paid up for them, and the consideration for the allotment;

(*b*) The cash actually received by the company for these shares;

(*c*) An abstract of the receipts and payments of the company, and an estimate of the preliminary expenses;

(*d*) The names, addresses, and descriptions of the directors, auditors, manager, and secretary; and

(*e*) If any contract is to be submitted to the meeting for modification, particulars both of the contract and of the proposed modification.

261.—**Kinds of Resolutions.** There are three kinds of resolutions which may be submitted to a general meeting of a company, viz. :—

(1) An *ordinary resolution*, that is, one which merely requires upon a show of hands a simple majority of the voters present, or if a poll be duly demanded a simple majority of the votes given, whether in person or by proxy, e.g. "that the directors' report be received and adopted."

(2) An *extraordinary resolution*, that is, one which is passed in such a manner as would, if it had been confirmed by a subsequent meeting, have constituted a special resolution as hereinafter defined. An extraordinary resolution is required when it is proposed to wind up a company voluntarily on the ground that it cannot continue its business by reason of its liabilities and that it is advisable to wind up. When it is to do anything by extraordinary resolution the notice convening the meeting must state clearly that this mode of proceeding is being adopted, otherwise any resolution passed by the meeting will be null and void.

(3) A *special resolution*, that is, one passed by a majority of not less than three-fourths of the members present at a general meeting of which notice specifying the intention to pass that resolution has been duly given, *and confirmed* by a simple majority of the members present at a subsequent general meeting, of which fresh notice has been duly given, held at an interval of not less than fourteen days and not more than one month from the date of the first meeting. If the regulations of the company so provide, both meetings may be convened by one and the same notice and no objection can be taken to the fact that the notice only convenes

the second meeting contingently on the proposed resolution being passed by the requisite majority at the first meeting.

A special resolution is necessary for the following as well as for other purposes :—

(1) To alter the Articles of Association;
(2) To reduce the capital of the company;
(3) To subdivide shares into shares of smaller amount;
(4) To render the liability of directors unlimited;
(5) To change the name of the company;
(6) To alter the objects of the company;
(7) To wind up voluntarily without assigning any particular reason.

262.—**Payment of Dividends.** The power to pay dividends is not expressly given by the Companies Acts, but it is inherent in every trading company so that it need not be mentioned in the *Memorandum of Association, but it ought to be and usually* is defined in the Articles of Association. If the regulations of the company do not specify in what proportion dividends are to be paid, they must be paid on each share in proportion to the nominal amount of that share without reference to the amount paid up on it, because the members of a company are *prima facie* entitled to participate in the profits of a company in proportion to their respective interests therein, and the nominal amount of capital held by each member is the measure of such interest. Hence the Articles usually provide and Table A now provides that dividends shall be paid in proportion to the amounts paid up on the shares held by each member respectively, and the dividends may be declared and paid by the directors with the sanction of a general meeting. But there is no obligation on the company to divide the whole of its profits amongst the shareholders; that is to say, it may form a reserve fund which, subject to the control of a general meeting, may be invested in such securities as the directors may select, because the matter is one affecting the internal management of the company; and according to the rule laid down in the case of Foss *v.* Harbottle, the Court will not interfere in the internal affairs of the company where there is nothing *ultra vires* the company, but will leave the question at issue to be decided by the majority of the members. When a dividend is declared and becomes due, it becomes a debt and each member becomes entitled to sue the company for his share, and it is in the nature of a specialty debt and *is not barred until twenty years have* elapsed.

263.—**Dividends must not be paid out of Capital.** Dividends can only be paid out of profits and must not be paid out of capital. Any payment of dividends out of capital is *ultra*

vires the company because it amounts to an unauthorised reduction of the paid-up capital. Hence, even if such payment is expressly authorised by the Memorandum or Articles of Association or is sanctioned by the resolution of the company, it is illegal and void as being contrary to the provisions of the Companies Acts, and directors who are parties to a payment of a dividend out of the capital are jointly and severally liable to refund the amount so paid; but the directors may recover, if they can, from each shareholder the dividend received by him if he knew it was paid out of capital, and a shareholder who has received the dividend with such knowledge cannot sue the directors. The question whether a company has profits available for distribution in dividends amongst the members of the company must be answered according to—

(1) The circumstances of each particular case;
(2) The nature of the company;
(3) The evidence of competent witnesses.

264.—**Payment of Interest out of Capital in Certain Cases.** Profits paid into a reserve fund retain their character as profits, and may be paid as dividends in a subsequent year, even though there is a loss on the capital account for that year. Although as a general rule dividends can only be paid out of profits and not out of capital, the Companies (Consolidation) Act, 1908, provides that where shares are issued for the purpose of raising money to defray the expenses of the construction of any works, or the provision of any plant which cannot be made profitable for a lengthened period, the company may pay interest on such shares out of capital, provided:—

(1) Such payment is authorised by the Articles or by a special resolution;
(2) The previous consent of the Board of Trade is obtained;
(3) The payment does not extend beyond the half-year after completion of the work; and
(4) The rate of interest does not exceed 4 per cent. per annum.

SECTION IV.—SPECIAL FORMS OF BUSINESS

Chapter XXVI

THE IMPORT TRADE

265.—**Foreign Trade.** In the shape of exports, the foreign trade of this country confines itself largely to the sale of home manufactures to foreign countries, whilst in the case of imports it consists chiefly of raw materials and foodstuffs from abroad for sale in the home country. Both the export and import trade are branches of business which demand the most comprehensive knowledge and ability. Adequate capital, familiarity with the prevailing economic and political conditions of the selling area, a knowledge of foreign languages, good business connections, and the ability to make rapid decisions are the essential bases of success. Exporters and importers are sometimes engaged on their own account, but more often they are commission agents and consignees.

266.—**The Import Trade.** The import trade of this country is conducted principally on "consignment," *that is, the actual* property in the goods imported remains with the exporter in the country of origin. For example, Australian wool is usually purchased from the flock-masters by large companies in the principal Australian cities, and is then shipped by them to England, where it is disposed of for their account. In many cases these houses have their branches here which attend to its sale. On the other hand, there are a large number of import houses which conduct their business on commission, i.e. they take charge of and sell foreign produce, charging a commission for their trouble.

The importer must be familiar with the conditions of purchase prevailing abroad, and he must also possess a minute knowledge of the countries of production and the principal producers. Special customs have evolved in the trade in almost every kind of goods, and a knowledge of these customs is indispensable.

267.—**Procedure in the Import Trade.** We shall now explain the shipping clerk's duties in regard to the execution of an import transaction. In the majority of business houses of any magnitude the shipping department is a distinct branch, having

its own chief and staff, who are responsible for the due performance of the business of the department. To this division of the office would be sent on their receipt all bills of lading for goods to arrive, and it is the duty of the shipping clerk to attend to the goods imported and their corresponding documents from the time of their arrival until the goods are finally deposited in the warehouse where they are to be stored. A careful watch is usually kept of the arrival of ships reported in the shipping newspapers, which are always supplied in the office, so that as soon as the ship arrives the proper measures may be taken to secure possession of the goods. These steps are of a twofold nature :—

(1) The passing of the necessary Customs formalities ; and
(2) Dealings with the ship's representative.

268.—**Customs Formalities.** A Customs duty is a tax paid to a State, and is chargeable at the frontiers of a country either on the importation, exportation, or the transit of goods. If the collection of this duty is estimated at so much per cent. on the value of the goods, it is called an *ad valorem* duty ; in contrast to this is the specific duty calculated on the weight or measurement of the goods. All goods which pass the frontiers of a country must go through the Custom House, where they are examined in order that the rate of duty under the Customs tariff may be ascertained.

269.—**Ship's Report.** The first step in connection with the importation of goods into this country is the intimation to the Customs authorities of the arrival of the incoming vessel. This is done by the master of the vessel, who hands to the proper authorities what is known as the ship's report (see pages 227-8), which consists of—

(1) A detailed list of the cargo on board the ship;
(2) The contents of the various packages;
(3) The names of the consignees, if known.

This report is made out in duplicate, and a copy is immediately dispatched from the Custom House to the Customs officers at the place where the ship is to discharge her cargo.

270.—**Entries.** The master having reported his ship, it now becomes the duty of the importer to claim his goods by passing what is known as an entry, the precise nature of which will vary according to the nature of the goods.

Information with regard to all goods imported, whether dutiable or not, must be given to the Customs authorities before the goods can be landed, and generally the particulars required include weight or measure and approximate value, and, of course, the name of the importing ship and the place from which she has arrived, or the country of origin of the goods. In connection with

REPORT

No. 1 (Sale)



If Sailing Vessel or Steamer } Steamer

No.__________

Official Number, 18762

Number of *Register*, 12865

Date of *Registry*, 7 Nov. 1900

Port of London

Ship's Name	Tonnage	British or Foreign; if British, Port of Registry; if Foreign, Country to which she belongs	Number of Crew: British Seamen	Number of Crew: Foreign Seamen	Name of Master, and whether a British or Foreign Subject	Port or Place from which arrived
Swallow	900	Cardiff	30	2	John Smith (British)	Bombay
		TOTAL. . .	30	2		

CARGO

1 Name or Names of Places where laden in order of time	2 Marks	3 Nos	4 Packages and Descriptions of Goods, Particulars of Goods stowed loose, and General Denomination of Contents of each Package of Tobacco, Cigars, Snuff, or Saccharine intended to be imported at this Port	5 Particulars of Packages and Goods (if any) for any other Port in the United Kingdom	6 Goods (if any) to be transhipped or to remain on board for exportation	7 Name of Consignee
Calcutta	T. J.	1/100	One hundred Chests of Tea		In Transit	Order
"	R. B.	1/20	20 Bags Ground Nuts			Castello & Co.
Bombay	R. J.	1/62	62 Bales of Raw Cotton			Richard Jones
	London					
If any wreck or derelict was fallen in with, or picked up, or iceberg observed, or any casualty to the vessel occurred during the voyage, particulars to be stated.						

[OVER

STORES

Surplus Stores remaining on board, viz.:	Tobacco, Cav.	lb.	Spirits	galls.	Playing Cards ...	packs
	" O.S.	lb.	Cordials or Liqueurs	galls.	Sundry low duty Goods	
	" Unmanufactured	lb.	Perfumed Spirits ...	galls.	Copyright Works	
	" Cigarettes	lb.	Saccharine	oz.	Live Stock ...	
	Cigars	lb.	Tea	lb.		
		number	Wine	galls.		

Number of Passengers (if any) British________Alien________Total Number________

Pilots' Names________________________________

At what Station Ship lying________________________________

Agent's Name and Address________________________________

I declare that the above is a just Report of my Ship and of her Lading, and that the particulars therein inserted are true to the best of my knowledge, and that I have not broken bulk or delivered any Goods out of my said Ship since her departure from , the last Foreign Place of Loading, *except

* Delete, if not applicable.

(Signed)

Signed and declared this day of 19 *Master.*

In the presence of

(Countersigned)

pro Collector.

Ships' Reports—Revised Instructions. Sec. $\frac{40616}{1918}$.

the following four main classes of goods a different entry has to be made by the importer:—

(1) Duty-free goods;
(2) Dutiable goods;
(3) Goods intended for re-exportation;
(4) Goods the exact nature of which is unknown at the time of importation.

(1) *Entry for Free Goods.* When goods are free of duty the merchant has to pass an "Entry for Free Goods" (see page 230). On this document it is necessary to give all such particulars as will enable the Custom House officials to identify the goods on their discharge from the ship, and also any further particulars of the goods as are required by the Government for statistical purposes. The Customs officers make a more or less cursory examination sufficient to satisfy themselves as to the good faith of the parties to the transaction. This having been done, the goods are then placed at the disposal of the importer or his agent.

(2) *Dutiable Goods.* The entry required to be passed in this case may be:—

(*a*) Entry for Home use ex Ship.—This is an entry for dutiable goods which is passed when the importer desires to pay the duty as soon as the goods arrive, without incurring the expense of warehousing them. The practice is to estimate the weight or measure of the articles as nearly as possible and to pay the duty thereon. This having been done, the goods are delivered out of the charge of the Customs authorities.

(*b*) Warehousing Entry.—When imported goods are not required for immediate use, but are to be warehoused, an entry is passed known as a "Warehousing Entry," which is in many respects similar to that for free goods. On this entry it is stated that the goods specified are to be warehoused, the name of the dock or other place to which they are to be taken is shown at the top of the entry, and a certain amount of control is exercised by the Customs authorities as to the places where certain classes of goods may be warehoused. For example, tea and tobacco must both be placed in separate warehouses apart from each other. Wines and spirits are likewise restricted, and all places in which it is intended to house goods prior to the payment of duty must first be surveyed and passed as suitable for the purpose by the proper officers.

When it is intended to take the goods out of a bonded warehouse the duty must be paid after passing

No. 23 (Sale). [Revised Edition.] Collector's No. and Date



This space is for the use of the Officers of Customs and Excise

Examination

ENTRY FOR FREE GOODS

Port, London

Dock or Station, London Dock

Importer's Name and Address, RICHARD JONES,
Kingsway, London

Ship's Name	Master's Name	Rotation No.	Date of Report	Port or Place of Shipment of Goods
Swallow	John Smith			Bombay

Marks and Nos.	No. of Packages and Description of Goods, in accordance with the Official Import List	Quantity	* Value £	† Name of Place whence Goods consigned
R. J. London 1 '62	62 Bales of Raw Cotton . . . (One hundred and seventy hundred-weights)	cwts. 170	820	Bombay

Name and Address of § Consignor, THOMPSON & SONS,
Bombay.

I enter the above Goods as free of Duty, and declare the above particulars to be true.
Dated this *24th* day of *August* 1924. (Signed) RICHARD JONES.

Customs Code, Vol. II., Part II., Pars. 1-13,
and S.C. 216625. Sec. $\frac{26913}{1919}$.

* (1) In the case of goods which are invoiced at a quoted price, the value to be stated in this entry should be the prime cost with the freight and insurance added ("c.i.f." value).
(2) When the goods are consigned for sale, the value to be given should be the latest sale value of such goods.

† NOTE.—The place whence the goods were consigned is not necessarily the place of origin, but it is the place from which the goods were procured by the importer, i.e. the place of last ownership.

§ The consignor is the last owner of the goods at the place from which they were procured: and the importer is the person by whom they were so procured by the consignor.

a "Home Consumption Warrant." On this is given all the particulars concerning the importation of the goods, including the name of the importing ship, the name of the person who passed the warehousing entry, the weight or gauge, and the amount of duty payable. When these particulars have been compared with the warehousing entry and the duty has been paid, the warrant is sent to the Custom House officers at the place where the goods are lying, when the necessary authority is made out to the warehouse-keeper to deliver the goods.

(3) *Entry for Goods intended for Re-Exportation.* In the case of goods intended for re-exportation, the exporter is required to pass a shipping bill which declares the quantity, description, and value of the goods to be shipped. The person whose name appears on the bill of lading is deemed by law to be the exporter of the goods. After the "shipping bill" has been filled up and signed by the exporter or his agent in such a manner as the Customs authorities may require, and countersigned by them, it constitutes the clearance for all the goods enumerated therein.

(4) *Entry when Goods are not known.* When the importer has not received sufficient particulars to enable him to pass his entry in the ordinary way, he is required to pass what is known as a "Bill of Sight." This having been passed, the importer is entitled to examine his parcel of goods, and then, according to circumstances, an entry is made under one or other of the above-mentioned forms.

271.—**Dealings with the Ship's Representative.** The duty of the shipping clerk with regard to the importation of goods will, so far as the Customs authorities are concerned, practically end with the passing of the necessary entries. The next duty will be to deal with the ship's representative or ship broker, but this is of a less formal nature since he is not a Government official The usual course of dealing may be briefly summarised. On arrival the goods are landed and taken charge of on behalf of the importer by one of the dock companies or wharfingers selected by [illegible]

of experts who are allowed to carry on their duties without any kind of interference.

The goods having been prepared for sale with as much dispatch as possible, the importer then receives various accounts such as "landing accounts," "weight accounts," and "piling accounts," together with samples. If the goods are "free," that

is, not liable to Customs duty on importation, they are examined by the Customs officers and then left at the disposal of the importer. On the other hand, if they are dutiable, the various operations are jealously watched and guarded. The weighing is done in the presence and under the actual direction of an officer of Customs, and in the case of tobacco the actual manipulation of the weights is undertaken by a subordinate official. Wines and spirits are gauged by an official gauger, whose measurements may be checked by a clerk of the dock company on behalf of the merchant. In all cases the weights and measurements so taken are recorded by the Customs officers, and these records become the official accounts of the goods; the importer is represented by the dock company's clerk, who also records the weights and measurements from which the returns made to the merchant are compiled. The landing accounts having been received, the next step is to make arrangements for the sale of the goods, which is almost invariably done through the agency of a broker. Various classes of produce have their special markets, each of which forms the centre around which the brokers congregate when effecting their sales.

The samples drawn by the dock companies or wharfingers are dispatched to the sale-rooms of the brokers in the particular localities, where they are inspected by the numerous buyers who frequent these special markets. The sales are usually by auction, and the brokers take care to arrange that one sale does not clash with another. At these sales transactions are effected with remarkable rapidity, and the goods bought and sold are of fabulous amounts, some being used for home consumption and others for re-export.

Having effected the sale of the goods, the broker immediately sends to his principal a contract note (see page 238) specifying the particulars of the goods sold, the price obtained for them, and the terms on which they have been sold. The date of payment is also mentioned, that is, the date on which the purchase is to be completed by the buyer, who on payment of the purchase price receives the necessary documents to enable him to obtain possession of the goods.

In the meantime the importer has taken the necessary measures to obtain the warrants for the goods which have been warehoused with the dock company. These warrants are made to suit the "lots" in which the goods have been sold, and it is the work of a clerk detailed for the duty to issue the necessary instructions, and to see that the documents are in order. Having been examined and found satisfactory, the warrants are indorsed and handed over to the broker to be transferred by him to the purchaser of the goods.

The broker will then make out and furnish to his principal an "Account Sales," on which will be shown all the necessary particulars of the merchandise he has sold, with the price obtained and the amount realised. From this amount he will deduct any expenses which have been incurred or paid on the goods named, together with his charge for selling, called brokerage. The amount remaining, known as net proceeds, is then handed to the importer of the goods.

272.—**Merchant's Account Sales.** On receipt of the broker's Account Sales, the first duty in the merchant's office is to subject it to critical examination. The weights are compared with the landing accounts, and the prices with the contract notes, and the various calculations are carefully checked to ensure that no errors have passed unnoticed in the broker's office. From the broker's account an Account Sales has next to be prepared for submission by the importer to the actual owner in the foreign country. This will consist of—

(1) A transcript of the broker's account;
(2) The expenses incurred by the importer for freight, dock charges, marine and fire insurance;
(3) The importer's own commission.

The total of these items will then be deducted from the gross proceeds of the sale, and will show the final amount of net proceeds which is to be credited to the shipper of the goods. The account will be closed by the remittance of a bill of exchange to the foreign consignor.

Chapter XXVII

THE EXPORT TRADE

273.—**Export Houses.** A large portion of the business between England and India, the Far East, Australia, etc., is done through the mediation of export houses. These houses work either direct with the foreign customer or through the medium of their branches, agents, or travellers in the country in question.

274.—**Exporter's Correspondence.** When trade is conducted with oversea countries the correspondence tends to assume a different form. As there are fewer opportunities for the transmission of letters, and as economy in postage is an important consideration, the correspondence tends to become longer, and in contrast to inland correspondence, several business transactions may be dealt with in a single communication.

In order to avoid the unpleasant results of a lost letter, a copy of the last letter is generally posted by the next mail, and copies of all enclosures are addressed to the foreign customer or agent.

Letter from a Bombay Branch

Sundries Dept.,

MESSRS. DALAL & CO., BOMBAY,

FINSBURY SQUARE, *26th Sept.* 1926.

LONDON, E.C. 2.

DEAR SIRS,

We confirm ours of last mail and are in receipt of your favour of the 8th inst.

Order 2560, *Wilson & Brown.* We have forwarded your report on to the dealer, but so far have not received his confirmation.

Order 7750, *Candles.* Your remarks are noted.

Order 3060, *Fancy Goods.* The same applies to this.

Tit-Bits, Old Newspapers. We note your remarks, but are afraid that buyers on this side will not pay the price that you are asking. If we are able to obtain an offer at anything near your limit we will cable it.

Greyhound Portland Cement. On the 23rd inst. we cabled for your best quotation for 1000 casks for the months of October/December as per translation enclosed, and received your reply yesterday quoting 9/9 per cask, and advising us that competitors *were in the market* for the monopoly. We cannot say at the moment whether we shall be able to confirm the business or not, but we are trying our utmost to do so, and shall revert to the matter next mail. We should certainly be very disappointed if this monopoly were not given to us.

Order 6860, Iron Screws. We enclose indent for five cases screws, which we beg you to execute and ship as soon as possible, according to instructions given in the indent.

Yours faithfully,

pp. DALAL & CO.,
W. S.

Three Enclosures.

In the above letter we find the simultaneous treatment of six separate items of business. Sometimes far more items are dealt with, but it would take up too much space to reproduce such a letter in detail.

To differentiate between the various items or to separate them from each other, a short key to the contents of each paragraph is placed as a heading and then underlined in order to draw attention to it. This method should be adopted in the case of all long letters.

In letters of this kind the initial sentence contains a double confirmation—the first acknowledging receipt of the letter received from the agent or customer, and the second confirming the last letter sent to the agent or customer and enclosing a copy of it. This introductory sentence may be expressed in a variety of ways, e.g. :—

(1) Yours of the 8th inst. to hand; we beg to confirm ours of the 24th inst., press copy of which is *enclosed*.

(2) We beg to acknowledge your favour of the 8th inst., and confirm our respects of the 24th inst., as per enclosed carbon copy.

The next step is to answer the various points of the letter received, and at the close new items are dealt with in the order of their [illegible] om the example, [illegible] reference to the [illegible] beginning of each item of business.

On receipt of a letter the export house has to classify the orders contained therein and then transmit them to the various manufacturers or suppliers. If it is necessary to examine the goods which are consigned direct from the place of production, it is well to enlist the services of a local agent. This entails an additional amount of correspondence. Where the prices are not known, it is necessary to ascertain them by inquiry, and in order to get the best terms a series of letters between the export house and the inland suppliers is necessary.

Letter from London House

FINSBURY SQUARE,
LONDON, E.C., 2.
13th October 1926.
Also at MANCHESTER *and* BOMBAY.

Sundries Dept.,
MESSRS. DALAL & CO.,
BOMBAY.

DEAR SIRS,

Since addressing you by last mail we have received your favour of the 26th ult.

Greyhound Portland Cement. We thank you for your favour asking for a quotation for 1000 casks Greyhound Portland Cement and confirm our reply as per translation of cable herewith at 9/9 per cask, October/December shipment. We trust that you will be able to bring this business to book.

Order 950, *School Slates.* We are disappointed that we have not heard anything further from you since quoting you 2/1 for these, and shall be glad if you can revive the matter.

Yours faithfully,
p.p. DALAL & CO.,
J. S.

Two Enclosures.

275.—**Cables.** In addition to inland correspondence with the suppliers regarding the most favourable terms, a more or less lengthy exchange of letters and telegrams with the foreign agent or customer becomes necessary if it is impossible to execute the order at his limit. Important transactions are dealt with by cable in order to save time. The telegrams referred to in the above letters concerning Portland cement are as follows:—

"Modern Business Methods"

Telegrams Received

DALAL & CO.,
London.

Telegraphic Address:
"LALAD, LONDON."
Codes Used:
A B C (5th Edition),
Premier, Ross Moss.

TELEGRAMS RECEIVED

From MESSRS. DALAL & CO.,
BOMBAY.

Indicator, DALAL. *Date*, 12/10/26

Code Cypher	Translation.	Monday.
Barristers	Greyhound Portland Cement. Make us a firm offer.	

These cables are, of course, sent in code, and immediately upon arrival they are entered on forms as above and translated. A copy of the translation of each telegram is forwarded by the next mail between Bombay and London in confirmation.

TELEGRAMS DISPATCHED

DALAL & CO.,
London.

Telegraphic Address:
"LALAD, LONDON."
Codes Used:
A B C (5th Edition),
Premier, Ross Moss.

TELEGRAMS DISPATCHED

To MESSRS. DALAL & CO.,
BOMBAY.

Indicator, DALAL. *Date*, 13/10/26

Code Cypher.	Translation.	Wednesday.
Contractors	We offer you, firm, [illegible] October December shipment @ 9/9 per cask. Competitors [illegible]	

On the 16th October 1926, Dalal & Co., Bombay, telegraph as follows:—

We counter-offer at 9/6 per cask. [illegible] shipment [illegible]

On the 17th October 1926, Dalal & Co., London, reply

Referring to your last telegram, we cannot [illegible] lower than our last—9/9. We can offer you [illegible]

On the 19th October 1926, Dalal & Co., Bombay, cable:—
We accept @ 9/9 with monopoly.

These telegrams are, of course, all dispatched in code.

276.—**London Confirmation of Telegrams—Contracts.** The next letter from London would contain a paragraph similar to the following:—

Greyhound Portland Cement. We duly received your counter-offer at 9/6 per cask for 1000 casks Portland Cement, "Greyhound Brand," but were obliged to refer it back at our original price of 9/9, as per enclosed translation. As we had heard that the monopoly for this brand was being treated for, we saw the owners and they gave us to understand that, if we could guarantee to take 10,000 casks per annum, they would give the monopoly to us. We therefore added a word to that effect, and were glad to receive your wire on Tuesday to say that you accepted.

We hand you herewith contract note for 1000 casks, and shall be pleased if you will do your utmost to dispose of the remainder as soon as possible.

CONTRACT

Order No. as your wire of *19th Oct.* 1926. LONDON, *24th Oct.* 1926.

Telegraphic Address:
"LALAD, LONDON." *Also at* MANCHESTER *and* BOMBAY.

From DALAL & CO.

MESSRS. DALAL & CO.,
BOMBAY, INDIA.

Continental and Sundries Dept.

We have the pleasure to inform you that we have entered on your account orders as stated below.

Terms, c.i.f. and c. Bombay.
Delivery or shipment, October/December.
Package, 1000 casks.

Quantity.	Description.	Width.	Length.	Quality.	Price.	
1000 casks	Greyhound					
375 lb. each net	Portland Cement				9/9 per cask	
					p.p. DALAL & CO., J. S.	

277.—Bombay Confirmation of Telegrams—Indent. After the Bombay branch has accepted the price of 9/9 in the next letter, they enclose the order or indent, together with the translation of the cablegram, to which they allude in the following terms:—

> *Order 960, Greyhound Portland Cement.* We have much pleasure in confirming our telegram accepting your limit of 9/9 per barrel, c.i.f. and c. Bombay, other terms as per enclosed indent. Please effect the shipment as soon as possible.

The indent differs from an ordinary order in the fact that it contains very strict conditions in favour of the seller and not of the buyer. Owing to the insecurity of many of the native houses, these stipulations are indispensable. Occasionally the indent is shorter than the example given, but it is always similar in nature. The London firm acknowledges the receipt of the indent by the dispatch of a sale note, which is similar in form to the contract.

278.—Advice of *pro forma* Indent. In less important transactions, instead of being fixed by cablegram, the price is fixed by letter. If the delivery of the aforementioned cement should not be very urgent, the letter from Bombay would contain a passage as follows:—

> *Order 960, English Portland Cement.* Enclosed we have the pleasure to hand you the *pro forma* indent, No. 960, for 1000 casks of English Portland Cement, "Greyhound Brand," which we trust that you can accept at our limits. If you cannot, will you please quote us your very lowest per return.

279.—Indent Price not Accepted—Report. On receipt of their *pro forma* indent Dalal & Co., London, reply in their next letter as follows:—

> *Order 960, English Portland Cement.* We thank you for your *pro forma* indent, No. 960, for 1000 casks of English Portland Cement, "Greyhound Brand," but regret that your limit is not workable. We refer you to indent report sent herewith.

REPORT

DALAL & CO. Also at Manchester and Bombay.	Continental and Sundries Dept.	D & CO., Bombay

4 Finsbury Square, London, E C,
1st Oct. 1926

Report on indent No. 960 from Mohamed Hagee Singh We quote our lowest 9/9 per cask, c.i.f. & c. Bombay, without engagement; with offer of monoply for 10,000 casks per annum, and trust to receive you confirmation.

Should the customer agree to this price, the answer of the Bombay branch would run as follows :—

> *Order* 960, *English Portland Cement.* In reply to your favour of the 1st inst., we have pleasure in stating that our indentor has confirmed Order 960 for 1000 casks of English Portland Cement, "Greyhound Brand," at your limit of 9/9 per cask.
>
> We shall do our utmost to dispose of the remaining quantity as soon as possible.

280.—**Shipment of the Goods.** The goods are ordered after the price has been fixed, and as soon as they are ready for shipment the manufacturer or supplier asks for shipping instructions, unless these have already been given with the order. The shipment may be attended to by the export house itself if it is situated at a convenient port; otherwise it will entrust the shipment to one of the large shipping companies, dock companies, or to a forwarding agent. Most business houses prefer a forwarding agent who, in return for a small commission, executes all the necessary formalities such as the preparation of the bill of lading, the Customs specifications, and in some cases even effects the insurance.

On receipt of the shipping instructions the manufacturer advises the forwarding agent or the shipping company of the dispatch of the goods as follows :—

Shipping Advice Note

From 30*th Oct.* 1926.

JOHN COOPER & CO., PORTLAND CEMENT WORKS, GRAVESEND.

To MESSRS. JOHN HARRIS & CO., 25 GREAT TOWER STREET, LONDON, E.C.

We beg to advise you that the under-mentioned goods have been forwarded per the Southern Railway to Tilbury Dock to your order for shipment per S.S. *Swallow* to Bombay, as instructed by Messrs. Dalal & Co., London.

D. &



Co., Bombay.

1/250, 250 barrels of Cement, 93,750 lb. net, value £121, 17s. 6d.

The shipping advice note usually contains an indication of the docks or port and the vessel to which the goods are to be sent, together with an exact description of the goods, their measure-

SHIPPING NOTE

No..............   LONDON, *4th Nov.* 1926.

To THE COMMANDING OFFICER of the
Steamship *Swallow*.

SIR,

Please receive on board the undernoted goods and grant a clean receipt for the same.

Yours faithfully,
J. HARRIS & CO.

N.B.—In case of any dispute, the shippers request prompt information in writing from one of the officers of the ship.

Marks and Numbers.	Number of Packages.	Description of Goods.	
D. & 960 Co., Bombay. 1/250	250 barrels	Cement	

MATE'S RECEIPT

No..............   LONDON, 5*th Nov.* 1926.

Received on board the Steamship *Swallow* in good orde and condition the undermentioned goods from Messrs. J. HARRI & Co., for Bombay.

N.B.—All packages in bad order must be returned.

Marks and Numbers.	Number of Packages.	Description of Goods.	
D. & 960 Co., Bombay. 1/250	250 barrels	Cement	

Arrived alongside yesterday.

Discharged to-day.

Returned....................................

Remarks ....

Signature, M. L., *Chief Officer.*

specification within six days of the departure of the vessel, but this only serves statistical purposes, seeing that in England there are no export duties. If goods are exported to countries which wage a tariff war or which allow preferential duties, a certificate of origin is also necessary. In the export of goods to the United States of America a consular invoice in triplicate has to be filled up.

After the forwarding agent has attended to the loading of the goods, he advises his principal of the fact as follows :—

> I beg to advise shipment of .... per S.S *Swallow* for Bombay, as per your instructions of the 11th inst, and enclose two copies of bills of lading and charges note for £.............., which I trust you will find in order.

281.—**Insurance.** On shipment of the goods an insurance has to be effected. In most cases this is carried out by the export firm in the shape of a valued policy or by writing off the amount on an open or floating policy, in which case a document divided into three parts is completed by the exporter. The first part, i.e. the counterfoil, is retained by the export firm, whilst the second, the insurance slip itself, and the third, the certificate, is sent to Lloyd's broker, who returns the third part, which constitutes a valid policy, to the insured (i.e. the export house).

282.—**Documentary Draft.** As soon as the export firm receives the invoice from the manufacturer, and after having examined it, it draws up its own invoice to the customer and draws upon him in accordance with the terms of the indent. This documentary draft is sent by the export firm to the bank with a memorandum on the following lines :—

> Enclosed we beg to hand you invoice, bills of lading, and insurance certificate for 250 casks English Portland Cement per S.S. *Swallow* from London to Bombay, and also our thirty days' sight draft on Messrs Mohamed Hagee Singh, Bombay, to whom please hand over the above documents against payment.
>
> Your cheque, value £121, 17s. 6d., will oblige.

The bank acknowledges the receipt of this as follows :—

> We are in receipt of your favour of enclosing bill of exchange amounting to £121, 17s 6d., which we will duly forward, together with the attached documents, to our correspondents for collection and remittance of proceeds, subject to the conditions as printed on the back hereof.
>
> In negotiation of the above bill we enclose cheque for £121, 17s. 6d. herewith.

283.—**Advice to Customer of Shipment.** The shipment of the goods and the draft are advised by the export firm to the customer by a special communication or in the next letter:—

Order 960, *Greyhound Portland Cement.* We have pleasure in advising the shipment of 250 barrels Cement against Order 960, per S.S. *Swallow*, and enclose invoice, copies of which, together with bill of lading and our draft amounting to £121, 17s. 6d., have been forwarded through the London and Bombay Bank as usual. Kindly see that our signature is duly honoured upon maturity.

INVOICE AND EXPORT FORM

DALAL & CO.,
FINSBURY SQUARE,
LONDON, E.C.

LONDON,
4th Nov. 1926.

Invoice of 250 Casks *shipped at* LONDON *per* S.S. Swallow *to* BOMBAY, *and consigned to* Messrs. MOHAMED HAGEE SINGH, *for sale on account of* themselves.

	Order No. 960						
D. & ◇960 Co., Bombay.	1/250 casks of English Portland Cement, "Greyhound Brand," each cask 400 lb. gross, 375 lb. net, @ 9/9 for cash .	£121	17	6			
					£121	17	6
					E. & O. E.		
	Draft @ 30 days/sight D/P plus interest.						

*SPECIFICATION for British Goods only.

Port of LONDON. Ship's Name, *Swallow.* JOHN SMITH, Master, for BOMBAY.

Date of Final Clearance of Ship, *7th Nov.* 1926.

* The Specification of Goods exported must be delivered to the proper Officers of Customs within six days from the time of the final clearance of the Ship, as required by the Customs Laws.

Marks.	Nos.	Number and Description of Packages.	Quantity and Description of British and Irish Goods, in accordance with the requirements of the Official Export List.	Value.	Actual Destination of the Goods.
D & (960) Co., Bombay.	1/250	250 barrels	English Portland Cement	£121 17 6	Bombay
			Total .	£121 17 6	

I declare that the particulars set forth above are correctly stated.

Dated *9th Nov* 1926.

†(Signed) J. HARRIS & Co., *Agents.*
(Address) 25 Great Tower Street, E.C.

(Countersigned) E. A.,
Officer of Customs.

† Adding Exporter or Agent, as the case may be.

Chapter XXVIII

THE TRADE OF THE MANUFACTURER

284.—**Locality of the Business.** From the point of view of production, the chief factors which determine the location of a manufacturer's business are :—

(1) *Raw Materials.* The business should be as near as possible to the source of raw materials, or where the industry specialises in a process (e.g. weaving) it is important that it should be in the vicinity of the industry engaged in the preceding process.

(2) *Labour.* Many industries call for a high degree of skill and must therefore be carried on in areas with a dense population.

(3) *Power.* In the past the supplies of water power and coal have played a large part in determining the situation of manufacturing undertakings, but these factors are becoming of smaller relative importance with the development of electric power.

(4) *General Facilities.* The existence of facilities for the execution of repairs, the construction of machinery, and the advantages of a sound banking and credit system have done much to attract undertakings to certain districts.

From the point of view of marketing the chief factors which determine the location of the business are :—

(1) The facility for disposing of finished products, which in turn is based upon the proximity of a large consuming area and satisfactory conditions of transport.

(2) The relative advantages of a country site as compared with a town site. In the country the manufacturer will have lower rent and rates and less interference on the part of local authorities ; in the town he will probably be able to obtain a better class of labour.

285.—**Organisation of the Business.** It is impossible to devise any scheme of organisation which is generally applicable to all types of manufacturing concerns ; such a scheme of organisation cannot be set up even for all the factories in a particular branch of industry. The reasons for this differentiation in the organisation of manufacturing concerns are :—

(1) Technical reasons: *peculiarities of the productive process*, size of the business, method of buying and selling, local requirements, etc.

(2) Historical reasons: the fact that some undertakings have developed from small beginnings *whilst* others are from the outset conducted on a large scale.

(3) Personal reasons: the peculiarities, aims, and whims of *the management*.

The differentiation in the organisation of *one undertaking* as compared with another is increased by the fact that peculiarities *in the organisation* of one portion of the undertaking due to the above reasons also entail peculiarities in other sections of the business. Hence it is practically impossible to copy a *scheme* of organisation and to set up a pattern which will be *suitable for all* factories engaged in the same industrial branch. A scheme of organisation for a particular factory can *only* be devised after due consideration *of the* special conditions prevailing in the undertaking. The fact that a certain system of office routine has proved very useful in one factory does not justify us in rushing to the conclusion that such a system would show equally good results elsewhere.

286.—**Principles of Organisation.** The organisation of a manufacturing concern is closely associated with the application of the principle of division of labour. As soon as two or more persons are engaged in the business there arises the possibility of a subdivision of tasks, and the larger the business becomes the greater is the possibility for the introduction *of specialisation*. In a large concern such specialisation is necessary:—

(1) In order that the management may exercise an efficient control;

(2) Because it facilitates the keeping of accounts by enabling the assets, liabilities, profits and losses to be arranged in convenient groups and departments.

The various duties in a manufacturer's business may be delegated upon the following principles —

(1) According to the functions performed An example of this is the division of the undertaking into a technical and a commercial side; the technical section may then be subdivided into special departments such as works office, patent office, power department, workshops, etc.;

(2) According to the kinds of commodities. A stores department or workshop may be organised according to the kinds of materials or articles stored or manufactured. In a warehouse or a factory which, for example, sells or manufactures three principal articles, the organisation may be divided into these three depart-

ments, and these in turn subdivided according to functions such as buying, costing, filing, etc.;

(3) According to the locality of the business premises. For instance, where the business management, the factory, and the salerooms are in separate buildings.

It is only in the early stages of development that such distribution of activities will be necessary. In the subsequent stages, the scheme of organisation will determine the locality of the offices and workrooms. Those workers whose operations are most closely related will be brought together; for instance, the sales department will be next to the dispatch department; costing and wages department will be brought together, as also the store of raw materials and the workshops.

The business organisation may be either uniform or mixed. A homogeneous or uniform organisation is one which is based entirely upon one principle, as where the duties are delegated according to functions. An example of functional organisation is given on page 249, which shows a scheme of organisation of a manufacturing concern.

A mixed organisation is one which is built up upon several principles which may be subordinated to each other. For instance, the organisation of an undertaking may first be divided according to function into buying, manufacturing, selling, and administration, and then a further division of each of these four departments may be effected according to the principal groups of articles manufactured.

Every factory is primarily a commercial undertaking engaged in buying and selling with the object of realising a profit, and secondarily it is an undertaking engaged in manufacture whereby materials are worked up into finished articles with the application of capital and labour. This natural division of a manufacturing concern into a technical and a commercial section is of the greatest importance in regard to the accounts, in which a clear distinction is drawn between buying and selling on the one hand and manufacture on the other.

287.—**Methods of Paying Wages.** The chief methods of determining wages in a manufacturing concern are embodied in the Piece, Progressive, Gain Share, Time, Task, Profit-sharing, and Co-partnership systems.

The *Piece* system encourages speed, and is therefore suitable in an industry in which the standard quality of the product is not unduly lowered by the workman's haste.

The *Progressive* system corrects the piece-work tendency to undue haste by decreasing progressively the increments of wages payable in respect of equal increments of work.

ORGANISATION OF A MANUFACTURER'S BUSINESS

- MANAGING DIRECTOR
  - Secretariat, Statistics, Organisation, Staff Administration
    - COMMERCIAL MANAGEMENT
      - Warehouse
        - Buying
        - Stock of Finished Goods
        - Stock of Materials
      - Office
        - Correspondence
        - Filing
      - Selling Department
        - Advertising
        - Dispatch
        - Sales
      - Accounts Department
        - Cash
        - Book-keeping
        - Costing
        - Wages
        - Statistics (if any)
    - TECHNICAL MANAGEMENT
      - Drawing Office (Plans and Drawings, Patents and Reference Department)
      - Technical Correspondence
      - Working-Power (Steam or Electricity)
      - Architect's Office (Alterations and Repairs)
      - FACTORY
        - Workshop A
          - Manager with Office and Stock of Materials
            - Workroom I
              - Foreman, Workmen, Apprentices
            - Workroom II
              - Foreman, Workmen, Apprentices
        - Workshop B
        - Workshop C
          - Workroom I
            - Foreman, Workmen, Apprentices
          - Workroom II
            - Foreman, Workmen, Apprentices

The *Gain Share* is a form of the progressive system, and is applicable in an industry where large quantities of an article are turned out.

The *Time* and the *Task* systems, again, are similar, the remuneration being based in each case upon a period of labour, though in the latter a certain minimum of achievement is required.

These systems are extended to those industries where the quality of the work depends upon the care exercised by the worker, where machinery is delicate or processes highly subdivided. Here a high degree of supervision is necessary.

Profit Sharing is a system based upon the recognition of the community of interests of employer and employed. It is of use in industries where profits depend largely upon the efficiency of labour, and where adequate supervision is difficult.

Co-partnership is a system of management and remuneration based upon a recognition of the common interests of capital and labour in production. It involves a definite contract between the parties representing capital and labour respectively, by which the operatives receive wages at the current rate, as well as a bonus in proportion to the net profits, after deducting interest on capital. It frequently happens that a proportion of the workers' remuneration is paid in the form of shares in the business capital. Further, the system involves a sharing in the control of the business by the representatives of labour, this varying in degree from nominal representation to complete participation in management.

Labour co-partnership is designed to secure from labour a maximum degree of co-operation in production by appealing to the sense of dignity and instinct for gain. In giving labour a voice in the management it affords an opportunity of sharing not only the profits, but also the responsibilities of industry. A new spirit is infused into the relations between capital and labour, barriers are swept away and mutual understanding promoted. The costs of industrial enterprise are reduced considerably, especially as regards supervision, while the product is augmented by increased production.

The system aims to secure a better spirit in industry, and in this it is largely successful.

288.—**Execution of a Transaction.** We shall now give an example of a business transaction executed by a manufacturer. As the goods in this transaction are not dispatched immediately on receipt of the order, a letter of acknowledgment must be sent by the manufacturer to say that he has accepted the order. This may take the form of a letter or a post card. In the case of more important deliveries, however, a contract note is issued by the buyer and forwarded in duplicate to the seller. The latter retains

one copy and returns the other with his signature. The advantage of the contract note is that it summarises in a concise form the various conditions of the sale, which might otherwise be spread over a series of letters. It also gives the buyer an opportunity to define clearly the conditions desired by him, and thus tends to minimise the possibility of disputes in the future. Since the contract note contains all the particulars of the order, it thus acts as a substitute for the order and is frequently referred to as the contract, and in some cases as the "bought note."

Where for some reason or other the seller is in a position to dictate his own terms (for example, patent, cartel, etc.), the position is reversed and the contract note is sent to the buyer for his signature (e.g. sold note). In this case an order has preceded, the terms of which are repeated in the contract note. Where the note is issued by a broker who intervenes between the buyer and the seller, the two portions of the contract note are called the bought note and the sold note. This is invariably the case in dealings on the large exchanges.

INQUIRY

115 Starling Street,
Manchester,
27th Aug. 1924.

Messrs. JOHN STRONG & CO., LTD.,
Empire Foundry,
Wigan.

Gentlemen,

Please let us know your lowest price for Cast Iron Girders as per drawings enclosed If your price is satisfactory, we shall be able to give you an order for about *five hundred*.

Yours truly,

FORD & CO.

Five Enclosures.

ESTIMATE

Telegrams: "STRONG, WIGAN"
On Admiralty List.

ESTIMATE

Telephone No. 46.
All tenders and quotations are subject to Strike and Accident Clause.

From JOHN STRONG & CO., LTD.,
EMPIRE FOUNDRY, WIGAN.

28th Aug. 1924.

To MESSRS. FORD & CO., 115 STARLING STREET, MANCHESTER.

Your esteemed inquiry of the 27th inst. for :—

	500	Cast Iron Girders as per								
		your blue prints sent.		Pric	e 18/	6 per	cwt.			
			M	onth	ly ac	coun	t net.			
		Delivered free at your works.								

REMINDER

ON ADMIRALTY LIST

TELEGRAMS TO
"STRONG, WIGAN"

TELEPHONE NO. 45

JOHN STRONG & CO., LTD.,
Iron Founders.

EMPIRE FOUNDRY,
WIGAN, *8th Sept.* 1924

MESSRS. FORD & CO.,
115 STARLING STREET,
MANCHESTER.

DEAR SIRS,

With reference to our quotation of 28th August for Iron Girders, we shall esteem it a favour if you will advise us whether *business is likely to result.*

Should any explanations or further information be desired, our representative will be happy to call as you may appoint.

We are,
Yours truly,
per pro JOHN STRONG & CO., LTD.,
H. HOWARD,
Secretary.

POST CARD

TELEGRAPHIC ADDRESS:
"FORD MANCHESTER"
TELEPHONE NO 580

From FORD & CO.,
115 STARLING STREET,
MANCHESTER.
9th Sept 1924

MESSRS. JOHN STRONG & CO., LTD.,
WIGAN.

DEAR SIRS,

We have duly received your favour of the 8th inst., and thank you for your estimate of the 28th ult. The matter is receiving our attention, and we shall write further in the course of a few days.

Yours faithfully,
per pro FORD & CO.,
W. BROWN,
Secretary.

Letter Enclosing Order

115 Starling Street,
Manchester,
17th Sept. 1924.

Messrs. JOHN STRONG & CO., LTD.,
Empire Foundry,
WIGAN.

Gentlemen,

Confirming your post card of the 9th inst., and referring to your favour of the 8th, we have much pleasure in handing you Order No. 5961 for 100 Cast Iron Girders, which we beg you to let us have before the end of the month. If they give us satisfaction the order for the other 400 will follow.

We are,
Yours faithfully,
per pro Ford & Co.,
W. BROWN,
Secretary.

One Enclosure.

ORDER

Telegrams:
"Ford, Manchester."
Telephone No. 580.

115 Starling Street,
MANCHESTER, *17th Sept.* 1924.

No. 5961.

Messrs. JOHN STRONG & CO., LTD., WIGAN.

Please supply the following goods at your earliest convenience, and oblige,

Yours faithfully,
FORD & CO.

100 Cast Iron Girders, patterns A to E, 20 of each pattern, @ 18/6 per cwt., per L.M. & S. Rly., delivered free at works before the end of the month.

The Number of this Order must be quoted on the Invoice.

Acknowledgment of Receipt of Order

POST CARD

Telegrams to "STRONG, WIGAN"

Telephone No. 40.

18th Sept. 1924

JOHN STRONG & Co, Ltd., Empire Foundry, Wigan, beg to acknowledge with thanks the receipt of Messrs. FORD & Co.'s esteemed order, dated 17th Sept., which shall have their most careful and prompt attention.

Order No. 5961.

Advice of Dispatch of Goods

EMPIRE FOUNDRY,
WIGAN,
28th Sept. 1924.

MESSRS. FORD & CO,
115 STARLING STREET,
MANCHESTER.

DEAR SIRS,

YOUR ORDER NO 5961.

We beg to advise the dispatch, to-day, per L.M. & S. Railway, of the undernoted goods, addressed to you as above, carriage paid invoice for £112, 17s. herewith, 100 Cast Iron Girders to your sketches

Yours truly,

pp. JOHN STRONG & CO, LTD,
H. H.

Wagon No. 76451.

INVOICE

Telegrams to
"STRONG, WIGAN."

Telephone No. 46.

EMPIRE FOUNDRY,
WIGAN, *28th Sept.* 1924.

MESSRS. FORD & CO., 115 STARLING STREET, MANCHESTER.

Bought of **JOHN STRONG & CO., LTD.**

Order No.			Total Weight.	Price.			
5961	100	Cast Iron Girders	6 tons, 2 cwts.	18/6 per cwt.	£112	17	0
		Per L.M. & S. Railway					
		in Wagon No. 76451.					

Acknowledgment of Receipt of Goods; One Girder Broken

115 STARLING STREET,
MANCHESTER,
3rd Oct. 1924.

MESSRS. JOHN STRONG & CO., LTD.,
EMPIRE FOUNDRY,
WIGAN.

GENTLEMEN,

We beg to thank you for your favour of the 28th ult., in which you advise the dispatch of 100 Cast Iron Girders, and enclosing invoice for £112, 17s. The goods arrived yesterday, but we regret to say one girder weighing 1 cwt. 2 qrs. was broken, evidently in transit. Please let us know what we are to do with it, and oblige,

Yours faithfully,
FORD & CO.

Instructions about Damaged Goods

MESSRS. FORD & CO.,
115 STARLING STREET,
MANCHESTER.

EMPIRE FOUNDRY,
WIGAN,
5th Oct. 1924.

DEAR SIRS,

We are in receipt of your favour of the 3rd inst., and regret that one of the girders arrived broken. As this is evidently the fault of the railway company, please let us have the necessary papers, so that we may recover from them. Please return the girder to our works. We enclose credit note for £1, 7s. 9d., and will send you another girder in place of the broken one with our next consignment.

We are,

Yours truly,

pp. JOHN STRONG & CO., LTD.,
H. H.

One Enclosure.

CREDIT NOTE

Telegrams:
"STRONG, WIGAN."
Telephone No. 46.

EMPIRE FOUNDRY,
WIGAN,
5th Oct 1924.

MESSRS. FORD & CO., 115 STARLING STREET, MANCHESTER.

Credited by JOHN STRONG & CO., LTD.

		tons	cwts	qrs	lbs		£	s	d
1	Cast Iron Girder								
	broken in transit								
	and being returned		1	2	0	18 6	£1	7	9

STATEMENT

Sales Ledger 891.

ON ADMIRALTY LIST

Telegrams to
"STRONG. WIGAN."

Telephone No. 46.

EMPIRE FOUNDRY,
WIGAN,
14th Oct. 1924.

MESSRS. FORD & CO.,
MANCHESTER.

Dr. to JOHN STRONG & CO., LTD.,
IRONFOUNDERS.

1924 Sept.	28th	To Goods as per Invoice .				£112	17	0
		Cr.						
Oct.	5th	By returns . . .	£1	7	9	£1	7	9
						£111	9	3
					net.			

ADVICE OF PAYMENT

115 STARLING STREET,
WIGAN,
19th Oct. 1924.

MESSRS. JOHN STRONG & CO, LTD.,
EMPIRE FOUNDRY,
WIGAN.

DEAR SIRS,

We beg to enclose cheque on Lloyds bank for £111, 9s. 3d., in payment of the enclosed account, which please discharge and return We hope to forward you another order in the course of a few days.

Yours faithfully,
FORD & CO.

Two Enclosures.

Acknowledgment of Receipt of Payment

EMPIRE FOUNDRY,
WIGAN,
22nd Oct 1924.

MESSRS. FORD & CO.,
115 STARLING STREET,
MANCHESTER.

DEAR SIRS,

We beg to acknowledge receipt of your favour of 19th inst., with remittance, value £111, 9s. 3d, in payment of our Sept. delivery, for which we thank you.

Please find discharged a c enclosed.

We are,
Yours faithfully,
pp. JOHN STRONG & CO., LTD.,
H. H

One Enclosure.

Chapter XXIX

BANKING AND EXCHANGE

289.—**Nature of a Bank.** The word "bank" has two distinct meanings: (1) A pile of earth, and (2) A financial institution. Originally the word had only one meaning, which takes us back into the early history of banking. In the middle of the twelfth century, when the great powers of the world were the Italian republics of Venice and Florence, a struggle was just beginning between Venice and Austria, who were attempting to invade Italy. At this time Venice found herself in considerable financial difficulties, and was in such need of funds that she was led to raise one of those compulsory loans which were afterwards known in England as "benevolences." It was subscribed or "piled up" by the contributions of the many citizens of Venice. Something piled up very high was expressed by the Latin word *mons*, which term is still found in the French *mont-de-piété*, which means a pawnshop, where a good many things are piled up. The Austrian soldiers who were overrunning Italy used the word *banc* in the same sense. The term *mons* afterwards became *monte* in Italian, while the word *banc* became *banco*; thus at the end of the twelfth century there were circulating in Italy two words having the same signification. The original meaning of the term "bank," therefore, was a subscribed or heaped-up loan, and in this sense we still hear of a man "making a pile" when he is making a fortune. There has since been a transition in the meaning of the word. At first it referred to the loan itself, then to the people who organised and managed the loan; and finally, to the building of grey stone in which the loan was supposed to be kept.

290.—**Origin of Banking in England.** Banking proper originated in England during the seventeenth century. During the civil war there was great insecurity, and people who had money got goldsmiths to look after their property. People with plate or money lodged it with the goldsmiths, who gave them in return an acknowledgment of the receipt of the value of it. These customers were allowed to withdraw their money in any of the following ways:—

(1) They could come in person and ask for its repayment.

(2) They could instruct the goldsmiths to repay their money to any specified person by giving the goldsmiths an order, which is now known as a cheque.

(3) They could accept from the goldsmith a general written promise to pay on demand to any person who produced that document for payment. This document was called a goldsmith's note, and has since been termed a bank note.

291.—**Foundation of the Bank of England.** The Bank of England was founded in 1694. At this time William III. was beginning to feel that his throne was in danger. The Stuarts were very hard at work to bring about a restoration of their dynasty, and at one time they seemed likely to succeed. The great mercantile interests of London had been Whig and Nonconformist, and it was felt very clearly that if the Stuarts were to return it would be a bad thing for the trade of London. Hence the London merchants were determined to keep out the Stuarts and support William III. To this end William Paterson organised a great loan for the assistance of William, who was in great need of funds. It amounted to £1,200,000, and was lent to the Government at the rate of 8 per cent. per annum with £4000 per annum for its management. This subscribed loan of £1,200,000 constituted the Bank of England, which was a bank in the original sense. The promoters were acknowledged by the Crown and received a charter in the year 1694. In the early years of its history it was much influenced by politics and was strongly opposed by the country party, who did their best to ruin it. They started what was known as the Land Bank. The opposition of the Land Bank, combined with the fact that the new Bank of England undertook a reformation of the currency, produced such a strain on the Bank of England that it had to suspend payment when it was only two years old. Among the chief dates in the history of the Bank are the following:—

1708. In this year associations of more than six persons were forbidden to issue bank notes. So closely was the issue of bank notes bound up with banking that the prohibition of note issue meant the abolition of joint stock banking.

1775. The minimum note was fixed at £1, and two years afterwards it was raised to £5.

1797-1819. The period of bank restriction. During this period the Bank of England note was inconvertible.

1826. An Act was passed modifying the Bank's monopoly by permitting the establishment of joint stock banks of issue outside a radius of sixty-five miles from London.

1833. An Act was passed which permitted the establishment of joint stock banks in London for all banking business except the issue of notes.

1844. The Bank Charter Act was passed.

292.—**The Bank Charter Act of 1844.** The chief provisions of this Act were :—

(1) The Bank of England was to have two separate departments, viz. The Issue Department and The Banking Department.

(2) There was to be a fiduciary issue against Government debt and other first-class securities up to £14,000,000, and all notes over this amount were to be secured by an equivalent value of gold and silver.

(3) Silver was to be limited to one-fourth of the gold in reserve.

(4) On a country bank ceasing to issue notes, the Bank of England, by Order in Council, could increase the fiduciary issue by two-thirds of the lapsed note issue.

(5) The Issue Department was authorised to give notes for gold at £3, 17s. 9d. per ounce.

(6) The Bank of England was to have the monopoly of note issues in London and within a radius of sixty miles.

(7) No further note issuing banks were to be established, and the existing banks were to lose the right of issue under certain conditions.

(8) A weekly return of the Issue and Banking Department was to be published.

As a result of the operation of the provisions of this Act, the Bank of England has now a monopoly of the bank note issue in England, all other banks having ceased to issue. Certain of the above provisions have since been altered, as will be seen later, but the general principles remain the same.

293.—**Present Position of the Bank of England.** The Bank of England acts in some respects as treasurer to the Government, receiving taxes and making necessary payments. It carries a portion of Government debt against which it is allowed to issue bank notes. Although it is not a Government institution, its actions are in some respects controlled by the Government, through the terms of the Bank Act of 1844. The Bank acts as banker to the other banks. Practically every bank in England holds its reserve at the Bank of England, partly as a measure of safety and partly to facilitate clearing operations ; the London Clearing House has an account with the Bank of England. Thus it will be seen that on it hinges the whole banking fabric of the country, which necessitates rather conservative operations on its part. Since it is guardian of the gold reserve in England, it makes alterations in its discount rate from time to time in order to attract or retain gold ; this also affects the other banks, since it is their custom to pay interest to depositors at a rate which depends on the bank rate. Though the prosperity and safety

of the other banks depends so much on the policy of the Bank of England, its directors are not drawn from the ranks of the bankers, but from other financial classes.

As regards the general public, its present importance lies to a great extent in the functions enumerated above. The fixing of the bank rate, however, has a great effect on industry and trade, making money cheap or dear as the case may be, though a still greater influence was noticeable in years gone by. The bank also assists trade in some cases by discounting bills not readily discounted elsewhere.

294.—**Bank of England Return.** This return has been termed the "barometer of the Money Market" because of the indications which it gives of the prevailing financial conditions. It is issued after the Bank Court on Thursday, and appears in Friday's papers :—

BANK OF ENGLAND RETURN.

ISSUE DEPARTMENT

Notes issued :		Government debt	£11,015,100
In circulation . .	£367,001,148	Other Government securities . .	233,568,550
In banking department .	52,087,797	Other securities . .	10,176,193
		Silver coin . . .	5,240,157
		Amount of fiduciary issue	£260,000,000
		Gold coin and bullion .	159,088,945
	£419,088,945		£419,088,945

BANKING DEPARTMENT

Proprietors' capital . .		£14,553,000	Government securities .		£52,180,327
Rest		3,254,001	Other securities :		
Public deposits . .		21,452,051	Discounts and advances	£13,586,293	
Other deposits :			Securities	20,214,855	
Bankers .	£62,379,409				£33,801,148
Other accounts .	37,185,203		Notes . . .		52,087,797
		99,564,612	Gold and silver coin		757,041
7 day and other bills .		2,649			
		£138,826,313			£138,826,313

It will be noted that, as provided by the Bank Charter Act, 1844, the return is in two parts, one dealing with the Issue Department and the other for the Banking Department

The above return indicated that notes to the amount of £419,088,945 had been issued, of which £367,001,148 were in the hands of the public. The figures, of course, include the new ten shilling and one pound notes issued in the place of the old Treasury notes. It will also be observed that the total fiduciary issue is now £260,000,000, and not £14,000,000 as provided by the 1844 Act. The reason for this is that when the Treasury note issue

was transferred to the Bank of England the Currency and Bank Notes Act was passed increasing the fiduciary note issue as stated.

In the statement of the Banking Department the first item is "*Proprietors' Capital*, £14,553,000," which has been unchanged since 1833. The liability of the holders is limited to their holdings.

The "*Rest*, £3,254,001," is a reserve of the Bank, representing the accumulation of undivided profits, and the balance of Profit and Loss Account. It is never allowed to fall below three millions.

"*Public Deposits*, £21,452,051," represent the sums standing to the credit of the Government Departments.

"*Other Deposits*, £99,564,612," are the deposits of the Bank's other customers. It will be seen that they are divided, in the return, into balances of other banks and balances of private customers. A high level of Other Deposits indicates a large surplus of unemployed funds of the banks, and is usually coincident with low interest and cheap money. From this item it is possible to determine the condition of the money market.

"*Seven Day and other Bills*, £2649," represents Bank Post Bills issued by one branch of the Bank upon another branch to persons desirous of remitting money to a distance in exchange for cash.

On the assets side of the return of the Banking Department the first item is "*Government Securities*, £52,180,327"; these represent the extent of the Bank's investments in British Government stocks, and Exchequer and Treasury Bills.

"*Other Securities*, £33,801,148," include the Bank's investments in securities other than those under the first heading, and also advances to bill brokers and to its ordinary customers. The two latter items are now shown separately in Bank Returns.

"*Notes*, £52,087,797," and "*Gold and Silver Coin*, £757,041." These two items represent the actual reserve of the Bank, and also the final reserve of the Nation. This reserve must be clearly distinguished from the Reserve of Gold held by the Issue Department against notes, which is held and appropriated to redeem the notes issued.

295.—**The Banker in the Service of the Trader.** After having gained an insight into the nature and development of banking, we now come to a summary of the various services which the banker renders to the trader. In the first place, it should be noted that the banker has accepted the rôle of a mediator of credit, and has developed the system of payment to a high degree. The sphere occupied by the banking business is so different from that of trade and manufacture that a division of labour between banking on the one hand and trade and manufacture on the other has become absolutely essential. As a matter of fact, there is hardly any commercial or manufacturing undertaking which does not directly

or indirectly avail itself of the services of a bank. By virtue of its organisation the banking undertaking can ensure that payments are made in the quickest and cheapest possible manner. It stamps with its impress the currency used in trade and thus converts it into a safe and universally accepted medium. It finances the import and export transactions and thus assists in reducing the risk of credit to a minimum; it brings to the *entrepreneur* the capital which he is required to borrow for the management of his business and renders him indispensable services in the formation, extension, reconstruction, and liquidation of his business; moreover, the banking undertaking procures reliable information for the trader and gives him expert advice in investment of capital and exchange operations, and keeps and administers his securities.

Just as a trader has to avail himself of the services of forwarding agents, transport institutions, brokers, insurance companies, and information bureaux, so he has also to depend upon the banking concern. In fact, trade is a separate activity quite distinct from that of banking, hence a division of labour is absolutely necessary as between these two different branches of commerce. Although the status of a trader is quite equal to that of a banker, division of labour between the two is absolutely essential. This division of labour, however, implies a mutual dependence; just as a trader could scarcely carry on his business without the assistance of a bank, so the banking undertaking can only survive by maintaining its connection with traders.

The trader usually chooses that bank which appears to him the most suitable and which offers him the best terms. A general summary of these various services rendered by the banker to the trader will now be given.

(1) *Dealings in Money.* If a merchant has received foreign currency from abroad or if he wishes to send to a creditor abroad money in the latter's own currency, he applies to a money changing bank which procures for him the currency he requires. The bank makes its profit for this service by allowing one exchange to the buyer and by charging a slightly more unfavourable one to the seller.

(2) *The Mediation of Payments.* Where a trader has to make a payment abroad, the cheapest and safest method is to pay the amount in question into a bank, at the same time instructing the banker to remit this amount to the creditor abroad. The bank in turn has a variety of methods by which it can execute this order. It may draw a cheque upon a correspondent at the place of payment and hand this cheque to the customer, or it may write or wire instructions to its correspondent to pay the amount. On receipt of these instructions the latter will pay the sum in question

to the person entitled to it. This method of giving instructions to pay out has the advantage over a cheque in that it is safer; moreover, it can be dated for a certain future date—a thing which is not possible in the case of a cheque which is always payable on demand. The bank recoups itself for these services either in exchange or by charging the customer a certain commission.

(3) *Collection of its Customer's Debts.* The trader may utilise the services of the banker in the collection of his outstanding debts, especially in the case of customers residing abroad. For this purpose the bank may have a variety of means at its disposal; as a rule it avails itself of the services of its correspondents; the customer may draw a bill of exchange upon the debtor and hand it into the bank for collection; in any case the bank covers itself for its services by charging a collecting commission.

(4) *Discounting of Bills.* The trader who desires to increase the circulation of his capital may issue bills of exchange against his book debts by drawing on his debtors. After these bills have been accepted he hands them to the banker duly indorsed. If satisfactory the banker then discounts the bill, and by this means the drawer gets immediate possession of the money. It frequently happens that the bank does not advance the full amount, but only a portion of it. The profit of the bank is to be found in the discount, and in some cases the bank also charges a special commission. In this category of business might also be included the discounting of other securities which have only a short period to run, e.g. Treasury Bills. These are promises by the State to pay to the legitimate holder a stipulated sum at a period of three or six months. Thus they are similar to bills of exchange. The State issues these bills to the banks or to private persons in return for sums less than their face value. During the War, Treasury Bills were used in most belligerent countries to meet the expenses of the War. In England alone at the conclusion of the War, Treasury Bills to the amount of £825,000,000 were in circulation. So long as these bills cannot be redeemed out of the revenue of the State or by consolidated loans they must be continually renewed after falling due. Thus they belong to the floating debt of the nation.

(5) *Acceptance of Bills of Exchange.* The better and safer the conditions of payment offered by the trader, the cheaper is he able to effect the purchase of his goods. For obvious reasons the most favoured method of payment in the foreign trade is by confirmed banker's acceptance; for this purpose the trader must enter into an arrangement with a bank and obtain an assurance that the bank will accept the bills in question. The conditions under which the bank will give such an assurance and the various forms of it cannot here be discussed. It is certain that the bank

in this connection nearly always accepts a risk; it accepts an obligation before having the corresponding cover in hand; hence the bank charges the customer a commission which may be regarded as a premium against risk, and which therefore is on a sliding scale varying with the degree of the risk. As the credit received for goods supplied is nearly always dearer than bank credit, the trader is safe in his calculations if he avails himself of the services of the bank credit.

Another form of acceptance business undertaken by banks is the financial draft. The trader draws on the bank, and the bank by accepting the bill converts it into bank paper which will now be discounted by other banks at the cheapest rate. In this way the drawer of the bill of exchange obtains cheaper money if the commission charged for acceptance does not amount to the difference between the bank discount and the private discount, reduced to the fraction of the year represented by the tenor of the bill.

(6) *Advances against Produce.* By means of these operations the trader is enabled to borrow capital for a shorter or longer period without having to resort to the sale of his goods. In the wholesale trade this is of very great importance. In times of slackness and falling prices the trader may guard against great losses by raising a loan on his stocks of goods.

Bankers also act as the agents, trustees, or bailees of their customers, carrying through purchases and sales of their stocks and shares, holding their securities for the purpose of collecting dividends thereon, receiving bills for collection on their behalf, and accepting sums of money specifically directed to be appropriated to special purposes. Where they have strong-rooms, they may be asked to act as warehousemen of their customers' chests of plate, jewels, securities, etc. They also act in many cases as registrars of the stocks of the Government, municipal, and other bodies.

296.—**Recent Tendencies in Banking.** The chief tendency in modern banking is concentration of capital and resources in the hands of a few immense joint stock banks by absorption of the private banks and of the smaller London banks and by amalgamation of the larger units. These concentrations, coupled with the clearing-house system, have consolidated the position of London as the centre of English banking and indeed as the financial centre of the world With the absorption of the small private banks by the large joint stock banks the issue of notes has finally been left to the Bank of England, whilst the cheque has come into greater favour. The small banks have vanished owing to the fact that their resources were unequal to the demands of modern commerce. "Their eggs were all in one basket";

depression in their particular districts meant depression or even ruin to them. The bigger banks had more mobility in their resources since they operated in numerous districts; money idle in one town could be made to work in another where they had branches. Thus the tendency has been for the banking units to grow bigger and bigger and for more and more amalgamations to take place. Another tendency has been for banks to act as accepting houses more than they formerly did. English banking policy, however, especially in regard to foreign trade, does not appear to have undergone any radical change—the traditional conservatism of the banker being still apparent in his reluctance to finance commercial operations on any considerable scale. This branch of banking has, since the war, been supplemented by various schemes of export credits and international loans.

It must be admitted that the banking amalgamations of recent years have resulted in an economy of staff, more systematic banking practices, a strengthening of reserves through greater concentration, and an increased mobility of capital.

ABBREVIATIONS USED IN BANKING AND EXCHANGE

Acc.	acceptance.
afft.	affidavit.
a/s	after sight.
Back.	backwardation.
B.B.	bill book.
B/C	bills for collection.
B.D.	bills discounted.
B/Dft.	bank draft.
B/E(Bs/E)	bill(s) of exchange.
Bk.	bank; book.
B.O.	branch office.
B/P	bills payable.
B.P.B.	bank post bill.
B/R	bills receivable.
C.B.	cash book.
C.H.	clearing house.
C/m	call of more.
Consols	consolidated annuities.
cum div.	with dividend.
Cy.	currency.
D/D	demand draft.
d/d	days after date.
dft.	draft.
D/R	deposit receipt.
ex cp.	without coupon.
ex div.	without dividend.
ex in.	without interest.
ex new	without the right to take new shares.
H.O.	head office.
I.R.O.	Inland Revenue office.
J/A.	joint account.
L/A.	letter of authority.
m/d	months after date.
M.O.	money order.
m/s	months after sight.
N.A.	no advice, or no account.
N.a.	non-acceptance.
N/E	no effects.
N/F	no funds.
N/N	not to be noted.
N/O	no orders.
N.P.	notary public.
N/S	not sufficient.
O.R.	official receiver.
P/A	power of attorney.
P/N	promissory note.
R/D	refer to drawer.
R/O	receiving order.
Shr.	share.
T.M.O.	telegraphic money order.
T.T.	telegraphic transfer.
x.c.	ex coupon.
x.d.	ex dividend.
x.in.	ex interest.
x.n.	ex new.

Chapter XXX

THE STOCK EXCHANGE

297.—**Organisation and Management.** The London Stock Exchange, in Capel Court, had its modest beginnings about 1698, and has now grown into an enormous concern, with a business hall of an area of 16,000 square feet and over 3000 members. It is in the position of a private company with unlimited liability; the shareholders are exclusively members of the Stock Exchange, and every one of them is obliged to take up at least one and not more than one hundred shares. Hence the constitution of the London Stock Exchange is analogous to that of most sporting clubs in the United Kingdom. The consequence of this is a far-reaching autocracy of the management in matters of organisation and in dealings with its members. The regulations forbid membership to such persons who themselves or whose wives are engaged either as principals or employees in any other kind of business than that of the Stock Exchange. At the beginning of March each year every member must apply to the committee for re-election, and in his application he must include this phrase: "I am not engaged as principal or clerk in any business other than that of the Stock Exchange, nor is my wife engaged in business; nor am I a member of or a subscriber to any other institution in which dealings in stocks and shares are carried on." Thus banks, financial institutions, and other bodies cannot be represented by their own employees but have to avail themselves of the services of an independent broker. The Stock Exchange Committee consists of thirty members and is elected annually; each member when recording his vote must vote for thirty members—no more, no less—otherwise his voting paper is void. The committee has power to expel a member for misconduct or other reasons. In modern times the power is not often exercised, but during the Great European War measures were taken to exclude persons of enemy nationality.

298.—**Brokers and Jobbers.** The members of the Stock Exchange are divided into two classes, viz. brokers and jobbers. The jobber acts as a principal. He generally specialises in a few classes of securities, and is always to be found in a certain corner

of the Stock Exchange. He is a dealer and works for his own book. When asked to give a price he quotes the buying and selling price for the stock in question, and is bound to deal up to a reasonable amount at those quotations. The jobber looks to the broker for payment or delivery, just as if the latter were a principal. The broker acts as agent for a member of the public, for another broker, or for a jobber. To the customer he could not be legally responsible for any failure of a jobber to meet his engagements, but such an action would be fatal to his reputation. The broker buys or sells stocks and shares, arranges for the delivery of money or shares, the filling up of the transfers, and the obtaining of the stock or share certificates. In order to have a good market all the members must have their offices near the Stock Exchange; and a jobber is not allowed to deal directly with members of provincial exchanges.

299.—**Procedure on the Exchange.** When a contract is made on the Stock Exchange, it has to be carried out at the next settlement. In the case of most stocks and shares there are fortnightly settlements. The settlement extends over three days. The first day is known as Contango or Making-Up Day, when any contracts which are carried over are arranged for. The second day is called the Ticket or Name Day, when the brokers' receipts for stocks are delivered. On the third or Settlement Day, delivery of the stock or money is made.

The broker must act for his client in all matters appertaining to the transfer of the stocks. If "bearer" securities have been bought, these are handed over. In the case of "inscribed" stock, the broker and jobber must attend at the Bank of England in order that the transfer may be made in the Bank's books. In the case of "registered" stock, the jobber hands the broker a certificate of transfer which has to be registered with the company or corporation so that a stock or share certificate may be issued to the buyer. The money in payment is paid over on settlement day when the stock is delivered.

The actual delivery of stocks and shares on settlement is made by means of a clearing, when the transactions in each security are reduced by set-off to one account, and a broker who has to receive stock receives a ticket telling him from whom he will receive, and if he has to deliver the stock he will be informed in similar fashion to whom he has to deliver it. In this way much unnecessary work is avoided.

The advantages of the system of settlement on the Stock Exchange are that the attention of brokers and jobbers can be focussed on buying and selling only during the greater part of the month. The settlement of accounts at one time avoids

unnecessary deliveries. Moreover, a fortnightly settlement is a healthy means of removing *speculators* from the market when they are getting involved to an extent more than they can afford.

300.—**Bulls and Bears.** The term "Bull" is applied to a dealer on the Stock Exchange who agrees to buy stock at a fixed price which he does not want, in the hope that when the settlement arrives the price will have gone up and that by selling the stock which he agreed to buy he will be able to realise a profit—that profit being the difference between the price at which he agreed to buy and the price to which the stock has risen.

The term "Bear," on the other hand, is applied to a person who has agreed to sell at a fixed price stock which he does not possess in the hope that before the settlement arrives the price will have fallen, and then he can buy the stock at the lower price and deliver it at the agreed price which is higher, thereby securing a profit.

The interests of bulls and bears are naturally antagonistic, for the one is anxious that prices should rise and the other is desirous that prices should fall. Hence each class employs every means in its power, either to elevate or to depress prices according to its own interest.

301.—**Options.** An option is the right to buy from a certain person a certain amount of stock or shares at a given price within a stipulated future time. There are three different kinds of options:—

(1) Call Options, which confer the right to *buy* certain stocks or shares.
(2) Put Options, which give the right to *sell* stocks or shares.
(3) Double Options, which give the right to *buy* or *sell* stocks and shares.

The amount charged for an option varies with the particular share and the period within which the power to exercise the right is granted. For example, suppose Jones buys a "put" for 10s. when the price of the security is £100. Should the price fall to £98 he will not exercise his option; but should the market price rise to £103 he will buy from the one granting him the option for £100 and sell at £103, thus making a profit of £2, 10s. From this it will be seen that the buyer of an option loses if the market price does not rise or fall by more than the price of the option.

302.—**Bucket Shops.** Outside the London Exchange there are offices of brokers who are not members of the Stock Exchange. Such brokers are not debarred from advertising, and frequently circularise persons inviting them to purchase or sell stocks and shares. They also encourage private parties to deposit with them a certain sum known as a margin, for the purchase of far larger

amounts of stock which they engage to buy for their clients. This is a method of gambling on the turn of the market. If prices rise, the client will probably elect to sell, and take the marginal profit; if the market falls the bucket shop man invites him to "put up" some more margin—and so on. Thus, if the client sells on the rise the shop itself is expected to pay; if on a fall, the shop annexes the deposit, and any other charge it may squeeze out of the client. Many of these shops have a poor reputation, and attempts have frequently been made by the Stock Exchange to discourage them; as it is, these outside brokers must employ members of the Stock Exchange to effect their purchases and sales.

303.—**Defaulting Members.** Where a member of the Stock Exchange is unable to fulfil his engagements to his fellow-members, he is "hammered," i.e. declared a defaulter, and deprived of his membership. If he becomes a bankrupt, or is proved to be insolvent even though he may not be a defaulter on the Stock Exchange, he ceases to be a member. As, however, a member is not allowed to carry on any other business, it is seldom that he is made bankrupt, because, generally speaking, the bulk of his debts are due to his fellow-members, who are forbidden to take bankruptcy proceedings against him.

The Stock Exchange assets of such a defaulter are taken over by the official assignees, who make such arrangements as are possible to meet the liabilities.

SECTION V.—LIQUIDATION OF THE BUSINESS

Chapter XXXI

DISSOLUTION OF A PARTNERSHIP BUSINESS

304.—**Methods of Dissolution.** A partnership business may be dissolved in two ways, viz. :—

I. *By Order of the Court*, that is to say, on the application of any partner the Court may decree a dissolution of the partnership even against the will of the other partners in the following cases :—

(1) When a partner is found by inquisition to be a lunatic or is shown to be of permanently unsound mind. In any such case the application may be made on behalf of that partner by his Committee in Lunacy, or by any other person having the right to interefere, or by any of the other partners;

(2) When a partner becomes permanently incapable of performing his share of the contract;

(3) When a partner has been guilty of such conduct as is calculated in the opinion of the Court—regard being had to the nature of the business—prejudicially to affect the carrying on of the business.

(4) Where a partner, other than the partner suing, wilfully or persistently permits a breach of the partnership agreement, or otherwise so conducts himself in matters relating to the partnership business that it is not reasonably practicable for the other partners to carry on business in partnership with him.

(5) When the business of a partnership can only be carried on at a loss.

(6) Whenever, in any case, circumstances have arisen which in the opinion of the Court render it just and equitable that the partnership should be dissolved.

II. *Without any Order of the Court.* A partnership may be dissolved on the happening of certain events without the application to the Court in the following cases, viz. :—

(1) A partnership is in every case dissolved by the happening of any event which makes it unlawful, either—
   (*a*) For the business concern to be carried on; or
   (*b*) For the members of the firm to carry on the firm in partnership; e.g. if a partnership exists between two persons residing and carrying on trade in different countries and war between the two countries is proclaimed, a stop is thereby put to any further intercourse between the partners, and the partnership subsisting between them is consequently dissolved.

(2) A partnership may at the option of the other partners be dissolved if any partner suffers his share of the partnership property to be charged in favour of a judgment creditor for his separate debt.

(3) Subject to any agreement between the partners, a partnership is *ipso facto* dissolved as regards all the partners—
   (*a*) By the death of any partner.
   (*b*) By the bankruptcy of any partner.
   (*c*) If entered into for a single adventure or undertaking or for a specified time, by the termination thereof.
   (*d*) If entered into for an indefinite period of time by any one partner giving notice to the other partner or partners of his intention to dissolve the partnership, in which case it is dissolved either—
      (i) From the date mentioned as the date of dissolution; or
      (ii) If no date is so mentioned, as from the date of the communication of the notice.

305.—**Consequences of Dissolution.**

I. *In Relation to Creditors of the Firm.* Where a person deals with a firm after its dissolution or after any change in its constitution, he is entitled to treat all apparent members of the firm, i.e. all persons known to the outside world to be members, as still being members of the firm until he has notice of the dissolution or change. In the case of persons who are old customers of the firm, notice in fact must be given to each of them. But in the case of persons who had no dealings with the firm before the dissolution or change, an advertisement in the *London Gazette* will be sufficient notice to them. Hence, on the dissolution of a partnership or the retirement of a partner, any partner may publicly notify the same and may require the other partner, or partners, to concur for that purpose in all necessary or proper acts if there are any which cannot be done without his or their concurrence. At the same time the estate of (i) a partner who dies, (ii) a partner who becomes

bankrupt, or (iii) a partner who, not having been known to the particular person to be a partner, retires from the firm, is not liable for future debts under these conditions.

When the dissolution of a partnership firm is caused by death or bankruptcy, then in the administration by the Court of the assets of deceased partners and of bankrupt or insolvent partners, the partnership or joint estate is applicable in the first instance in the payment of the partnership debts. If there is a surplus of the partnership estates, such surplus is applied to the respective separate estates according to the rights and interests of each partner in the joint estate.

II. *As regards the Relations of Partners to one another.* On the dissolution of a partnership every partner is entitled as against the other partners in the firm and by persons claiming through or under them in respect of their interest as partners—

(1) To have the partnership property applied in payment of the debts and liabilities of the firm;

(2) To have the surplus assets applied in payment of what may be due to the partners respectively after deducting what may be due from them as partners to the firm; and for the above purpose any partner or his representatives may on the termination of the partnership apply to the Court to wind up the affairs of the firm.

306.—**Apportionment of Losses and Assets.** In settling accounts between the partners after a dissolution of a partnership, the rules, subject to any agreement between the partners, as contained in the articles of partnership or otherwise, are as follows:—

(1) *Losses,* including losses and deficiencies of capital, are to be paid—

(*a*) Out of the profits;

(*b*) Out of the capital; and

(*c*) If necessary by the partners individually in the proportion in which they were entitled to share profits.

(2) *The assets* of the firm, including the sums, if any, contributed by the partners to make up losses or deficiencies of capital, are to be applied in the following order and manner:—

(*a*) In paying the debts and liabilities of the firm to persons who are not partners therein;

(*b*) In paying to each partner what is due from the firm to him for advances as distinct from capital;

(*c*) In paying to each partner rateably what is due from the firm to him in respect of capital; and

(*d*) The ultimate residue, if any, is to be divided among the partners in the proportion in which profits are divisible.

307.—**Partner's Powers after Dissolution.** After the dissolution of a partnership, the authority of each partner to bind the firm and the other rights and obligations of the partners continue notwithstanding the dissolution, so far as may be necessary—

(*a*) To wind up the affairs of the partnership;

(*b*) To complete transactions begun but unfinished at the time of the dissolution, but not further or otherwise, provided always that the firm as such is in no way bound by the acts of a partner who has become bankrupt. Hence, a surviving partner for the purpose of winding up the partnership affairs may continue the business and may mortgage the partnership property whether real or personal to secure a partnership debt.

308.—**Apportionment of Premiums.** Where one partner has paid a premium to another on entering the partnership for a fixed term and the partnership is dissolved before the expiration of that term by the death of a partner or otherwise, the Court may order the repayment of the whole or any part of the premium, which in ordinary cases will be a part proportional to the unexpired proportion of the term unless—

(*a*) The dissolution is in the opinion of the Court wholly or chiefly due to the misconduct of the partner who paid the premium; or

(*b*) the partnership has been dissolved by an agreement containing no provision for a return of any part of the premium.

309.—**Dissolution through Fraud or Misrepresentation.** Where the partnership contract is rescinded on account of a fraud or misrepresentation of one of the parties thereto, the party entitled to rescind is, without prejudice to any other rights or privileges he may have, entitled—

(*a*) To a lien on the surplus of the partnership assets after satisfying the partnership liabilities for any money paid by him for a purchase of the share in the partnership and for any capital contributed by him;

(*b*) To stand in the place of creditors of a firm for any payments made by him in respect of the partnership liabilities; and

(*c*) To be indemnified, by the person guilty of the fraud or misrepresentation, against all debts and liabilities of the firm.

310.—**Rights of Outgoing Partners.** Where any member of a firm has died or otherwise ceased to be a partner and the surviving or continuing partners carry on the business of the

firm with its capital or assets without any final settlement of accounts as between the firm and the outgoing partner or his estate, then in the absence of any agreement to the contrary the outgoing partner or his estate is entitled at the option of himself or his representatives either (*a*) to so much of the profits made since the dissolution as the Court may find to be attributable to the use of his share of the partnership assets, or (*b*) to interest at the rate of 5 per cent. per annum on the amount of his share of the partnership assets.

Where an option is given by surviving partners to purchase the outgoing partner's share and that option is duly exercised, the estate of the outgoing partner is not entitled to any further or other share of profits.

Subject to any agreement between the partners, the amount due from surviving or continuing partners to an outgoing partner or the representatives of a deceased partner in respect of the outgoing or deceased partner's share is a debt accruing at the date of dissolution or death.

311.—**Sale of Goodwill.** Upon the dissolution of a partnership without any sale or assignment of the goodwill and without any provision as to the use of the firm name, each of the partners is entitled to carry on business under that name, provided that he does not by so doing expose his former partners to any risk of liability, and whether there will be any such risk is a matter to be determined having regard to the circumstances of each case.

Where "A" takes "B" into partnership on terms that on the expiration of the partnership the goodwill of the business shall be the sole property of "A," then in the event of a dissolution "A" can, if necessary, restrain "B" by injunction from applying, privately or by letter, or personally, or through a traveller, to any person who was prior to the dissolution of the partnership a customer of the firm, asking such customer to continue after the dissolution to deal with himself—"B"—or not to deal with "A"; because on general principles of law, when the goodwill of a business is sold without further provision, then, although the vendor is at liberty to set up a rival business, he is not entitled to canvass the customers of the old firm, and the vendor may therefore be restrained by injunction from soliciting any person who was a customer of the old firm prior to the sale to continue to deal with himself, the vendor, or not to deal with the purchaser.

Chapter XXXII

VOLUNTARY LIQUIDATION

312.—**When possible.** A company may be wound up voluntarily:—

(1) When the period fixed for the duration of the company has come to an end, or when the event occurs on the occurrence of which it is provided by the constitution of the company that the company is to be dissolved and the company has in general meeting passed an ORDINARY resolution to wind up voluntarily;

(2) Whenever the company has for any cause or reason whatsoever passed a SPECIAL resolution to wind up voluntarily;

(3) When the company has passed an EXTRAORDINARY resolution stating that it cannot by reason of its liabilities continue to carry on its business and it is advisable to wind up voluntarily, in which case the notice calling the meeting of shareholders must state the ground on which it is proposed to wind up the company, or the proceedings will be invalid.

313.—**The Process of Winding-up** is the normal mode contemplated by the Companies Acts, 1908 to 1917, the general policy of which is that shareholders shall manage their own affairs and themselves govern the winding-up of the company in which they are interested. Hence the object of a voluntary winding-up is to enable the company and its creditors to settle their affairs without going to the Court, but at the same time to provide them with every facility for applying to the Court if necessary. The commencement of a voluntary winding-up dates from the passing of the resolution which authorises it, and in the case of a special resolution this means at the time when the second or confirmatory resolution is passed.

314.—**The General Effects of a Voluntary Winding-up** are:—

(1) The company ceases to carry on its business except so far as may be necessary for a beneficial winding-up.

(2) All transfers of shares, except those made to or by sanction of the liquidator, are void.

(3) Any alteration in the status of the members is void; and

(4) The corporate status and powers of the company continue until its affairs are wound up.

Under a voluntary winding-up the *liquidator is appointed* by the company itself in general meeting, and he may without the sanction of the Court exercise all the powers of a liquidator appointed by the Court. The commencement of a voluntary winding-up does not operate *automatically* as a stay of actions, executions, distresses, and other legal processes against the company, but on application being made to the Court it may restrain all legal proceedings against the company after the voluntary winding-up has commenced.

315.—**Rights and Duties of Liquidator.** The liquidator may summon a general meeting of the members if and when required, and he must summon a meeting at the end of every year of the winding-up and present a report to the members. As soon as the affairs of a company are completely wound up the liquidator prepares a final account, calls a general meeting, and lays the account before the meeting. He then makes a return to the registrar of companies of the fact of such meeting having been held, and at the end of three months from the date of registration of such return the company is deemed to be dissolved and ceases to exist. The voluntary winding-up of a company is not a bar to the right of any creditor of a company to have the company wound up by the Court if the Court is of opinion that the rights of the creditor will be prejudiced by a voluntary winding-up, or if the general body of creditors press for a winding-up by the Court. On the other hand, the fact that a voluntary winding-up is in progress is *prima facie* a bar to a compulsory winding-up on the petition of a contributory, because a contributory, i.e. an ordinary shareholder, *is bound by the wishes of the majority*. But it may make an order for the winding-up by the Court even on the application of a contributory if it is of opinion that the voluntary winding-up is a fraud or a sham, or is likely to prejudice the interests of the shareholders, and *that some benefit will result to the shareholders* by making a compulsory order. If the Court does make an order for compulsory winding-up after a voluntary winding-up has commenced, the proceedings under the voluntary winding-up are not thereby invalidated, and the Court may adopt *all or any of them*.

316.—**Winding-up under Supervision of the Court.** When a resolution has been passed by a company to wind up voluntarily, the Court may make an order directing that the voluntary winding-up shall continue but subject to the supervision of the Court and on such terms and conditions as the Court thinks just. In making or refusing a supervision order, the Court has regard, as in the case of a petition for compulsory winding-up,

to the wishes of creditors and contributories. A supervision order does not affect the time of the commencement of the winding-up, which is still the date of the resolution passed by the company to wind up voluntarily. The general effect of the making of the order is that the liquidator appointed in the voluntary winding up may exercise all his powers without the sanction of the Court as in a voluntary winding-up, but subject to such restrictions as the Court may direct. Formerly a creditor of a company had no right to apply to the Court when the company was being wound up voluntarily, and the principal reason for making a supervision order was to enable a creditor whose rights were prejudiced to apply to the Court; but under the Companies (Consolidation) Act, 1908, a creditor has now the right to apply to the Court even in a purely voluntary winding-up, so that the principal reason for making a supervision order has disappeared. But there are still two grounds on which a supervision order is useful, namely :—

(1) It operates automatically as a stay of actions and other proceedings against the company, just as a winding-up order does.

(2) It is incumbent on the Court on making a supervision order to appoint a liquidator to act with the existing liquidator in the winding-up.

317.—**Actions against Delinquent Parties.** In all three forms of winding-up, if in the course of winding-up it appears that any person who has taken part in the formation or promotion of the company, or any past or present director, manager, liquidator, or other officer of the company has either—

(1) Misapplied or retained or become liable or accountable for any monies or property of the company; or

(2) Has been guilty of any misfeasance or breach of trust in relation to the company; for example, by making secret profits, or by paying dividends out of capital, or by applying the funds of the company for objects not sanctioned by the company's Memorandum of Association;

the Court may on the application of the official receiver or liquidator or any creditor or contributory examine into the conduct of the guilty party and compel him either

(1) To repay any monies or restore any property so misapplied or retained or for which he has become liable or accountable, together with interest at such rate as the Court thinks just; or

(2) To contribute such sums to the assets of the company by way of compensation in respect of such misapplication, misfeasance, or breach of trust as the Court thinks just.

For the purpose of misfeasance proceedings and to ascertain what assets are outstanding, the Court may at the instance of the liquidator summon before it and examine any officer of the company or any person who is indebted to the company or who has property of the company in his possession, or who can give any information as to the affairs of the company.

318.—**The Principal Differences between a Compulsory and a Voluntary Winding-up** are:—

(1) A compulsory winding-up practically means that the company is insolvent, whereas a voluntary winding-up is frequently employed to dissolve a company amicably without a discontinuance of business, e.g. to change its objects or constitution, to distribute surplus assets among the members, or to amalgamate with another company.

(2) Under a voluntary winding-up the liquidator is appointed by the company itself and everything is done on its own responsibility except where an application to the Court is necessary on the ground of difficulty or to invoke its assets, e.g. to enforce calls.

(3) An order for a compulsory winding-up operates as a notice of discharge to the servants of the company because it affects a change in the personality of the employer, the business being thenceforward carried on by the Court, whereas a resolution for a voluntary winding-up has no such effect, because it does not produce any such change, the business being continued by liquidators who are agents of the company itself.

319.—**When Compulsory Winding-up desirable.** A compulsory winding-up by order of the Court is desirable:—

(1) Where large interests are at stake.

(2) Where powers which may be put into force under a compulsory but not under a voluntary winding-up are likely to be required, e.g. a public examination of the promoters or other officers of the company.

(3) [illegible]

(4) [illegible] sufficient to answer the liabilities.

(5) Where there is a danger of debtors or contributories escaping from their liabilities.

COMPAR[illegible] OF DIFFERENT FORMS OF WINDING-UP

Form.	Circumstances under which applied.	Conditions rendering it desirable.	Effects.
I. Compulsory Winding-up by the Court.	(1) When a special resolution of the company requires it. (2) When the company fails to commence business within one year. (3) When the company suspends its business for a year. (4) When the company is unable to pay its debts. (5) When the membership of the company falls below the legal limit. (6) When the company fails to file the statutory report or hold the statutory meeting. (7) When the Court is of opinion that it is just and equitable.	When the company becomes insolvent.	(1) The winding-up order operates as a notice of discharge to all servants of the company, because it affects the personality of the employer, the business being carried on by the Court. (2) All dispositions of the property of the company made between the commencement of the winding-up and the winding-up order are avoided. (3) A stay is put on all actions and executions. (4) The official receiver becomes the official liquidator.
II. Voluntary Winding-up.	(1) When the period fixed for the company's duration expires. (2) When the event which terminates the company's business occurs. (3) When by reason of its liabilities it cannot continue. (4) When the company for any reason requires a voluntary winding-up.	When it is desired to dissolve a company amicably.	(1) The company ceases to carry on business except for winding-up purposes. (2) It remains a corporate body. (3) On appointment of the liquidator the directors' powers cease. (4) Transfers are subject to the liquidator's consent. (5) If winding-up lasts more than a year the liquidator calls meetings of the company at the end of each year. (6) The liquidator may settle the list of contributories, make calls, and carry on the business for winding-up purposes.
III. Winding-up under Supervision of the Court.	On application, the Court can direct that the voluntary winding-up proceed under its supervision.	When it is desirable to put a stay on all proceedings against the company, or to appoint a representative of the Court to act with the existing liquidator.	The liquidator appointed in the voluntary winding-up may exercise all his powers without the sanction of the Court, but subject to such restrictions as the Court may direct.
IV. Reconstruction	On the passing of a special resolution.	When it is desired to raise fresh capital by issuing partly paid-up shares in the new company in exchange for fully paid-up shares in the old company; or where it is desired to rearrange the capital of the old company.	No member can be bound to take shares, but each dissentient is protected and entitled to value (Section 192). Any scheme excluding the rights of dissentients is *ultra vires*.

Chapter XXXIII

COMPULSORY LIQUIDATION

320.—**Winding-up by the Court.** A company may be wound up by the Court whenever:—

(1) The company has passed a special resolution requiring the company to be wound up by the Court.

(2) The company does not commence its business within a year from its incorporation, or suspends its business for the space of one year or more.

(3) The company is unable to pay its debts which will be deemed to be the case—

(*a*) If a creditor to whom the company owes £50 or more has served on the company a demand for payment, and the debt had not been paid within three weeks;

(*b*) If an execution of a judgment against the company remains unsatisfied; or

(*c*) If it is proved to the satisfaction of the Court that the company is unable to pay its debts.

(4) The company fails to hold the statutory meeting or to circulate its statutory report as required by the Companies Act, 1908.

(5) The number of members is reduced below seven (two for a private company).

(6) Whenever the Court is of opinion that it is just and equitable that the company should be wound up. For example, if the main business or substratum of the company is lost or gone or the company is merely a bubble, or the company is founded on fraud.

321.—**Petition to Court.** The order for winding-up is obtained by presenting a petition to the proper Court, viz., the High Court if the *paid-up* capital is over £10,000; but as regards companies whose registered offices are within the jurisdiction of the Palatine Courts of Lancaster and Durham, those Courts have concurrent jurisdiction with the High Court; and the petition must be presented to the district County Court having jurisdiction in bankruptcy if the *paid-up* capital does not exceed £10,000, unless the registered office is within the Metropolitan District, in which case the jurisdiction is in the High Court.

The petition may be presented

(1) By the company;
(2) By any creditor;
(3) By any contributory, i.e. by any person liable to contribute to the assets of the company under the provisions of the Companies Acts, 1908 to 1917, in the event of the company being wound up, including a fully paid-up shareholder, and any provision in the Articles which purports to limit or deprive members of the company of their right to this power is illegal and void;
(4) By the official receiver in bankruptcy attached to the Court for the purpose, in cases where a voluntary winding-up has already commenced and he thinks it cannot be continued without prejudice to the interests of creditors or contributories.

The majority of the petitions to wind up are presented by creditors—a petition for a winding-up order being a proper as well as an effective method of enforcing payment of a debt from the company. In the rule laid down in the case of Bowes *v.* The Hope Mutual Life Insurance Co., 1865, a petitioning creditor who cannot get paid has *prima facie* the right to insist upon a winding-up order being made. But the Court has a discretion in the matter and may refuse to make the order—

(1) If for some good reason the majority of the creditors object to a winding-up.
(2) If there is nothing to wind up nor reasonable possibility of there being any assets for the ordinary creditors of the company.
(3) If the making of the order will do no good.

But the mere fact that the debenture holders of a company will or may sweep up all the assets is not sufficient to justify the Court in refusing to make the order, and unless the debenture holders can show that there is no reasonable probability of any benefit accruing from the winding-up, a petitioning creditor is entitled to a winding-up order in order that the ordinary creditors may be represented by the official receiver in any action brought by the debenture holders to enforce their security.

322.—**Effect of Compulsory Winding-up.** The winding-up of a company by the Court is deemed to commence at the date of the presentation of the petition for winding-up, and the general effect of a winding-up order is—

(1) To avoid all dispositions of the property of the company made between the commencement of the winding-up and the winding-up order, unless the Court otherwise directs; and

(2) To put a stop to all actions, executions, distresses, or other processes of law against the company unless the Court, in its discretion, gives its consent for them to proceed notwithstanding the winding-up.

323.—**The Official Receiver.** Upon a winding-up order being made, the official receiver becomes *ipso facto* provisional liquidator of the company, and it is his duty to summon forthwith meetings of both creditors and contributories to determine—

(1) Whether they desire a liquidator of their own choosing in place of the official receiver as liquidator; and

(2) Whether there should be a committee of inspection, and, if so, of whom it shall consist.

The result of the wishes of the meetings on the above points is reported to the Court, and the Court fixes a day for considering such wishes, and if it so decides, it will give effect to them.

If and when the official receiver is himself liquidator he can apply to the Court for the appointment of a *Special Manager* of the property and business of the company.

324.—**The Committee of Inspection** consists of a joint body of creditors and contributories. It meets at such times as the liquidator may from time to time appoint, it acts by a majority, and its function is to assist the liquidator and to supervise his proceedings.

325.—**Official Receiver's Report.** The official receiver is also under a duty to make a report to the Court as to—

(1) The capital of the company;

(2) The assets and liabilities of the company;

(3) The causes of failure; and

(4) Whether an inquiry is desirable as to the promotion, formation, or failure of the company and the conduct of its business.

He may also present a further report if he thinks fit, stating whether in his opinion any fraud has been committed by any person in the promotion or formation of the company or by any director or officer in relation to the company since its formation, and in the event of his making such a further report expressing his opinion that any such person has been guilty of fraud, the Court may direct the person implicated to attend before the Court and to be publicly examined on oath as to the affairs of the company.

The Court has also the power, at the instance of the liquidator, to summon before it any person who is indebted to the company or has property in his possession, or any person who can give information concerning the company and directing him to bring with him any books and documents belonging to the company. But the examination in this case is held before the registrar or an examiner of the Court, and is a strictly private proceeding

326.—**Duties of the Liquidator.** The principal duties of the liquidator are:—

(1) To take possession of and protect the assets of a company. The liquidator represents both the company and the creditors, and he is in the same position as a receiver and manager of partnership assets and must give the creditors and contributories every assistance in inspecting the books and investigating the affairs of the company; but the property of the company does not vest in him. He is paid a salary for his services, and he may resign or be removed by the Court.

(2) To make out the requisite list of contributories and of creditors, and to have disputed cases adjudicated upon by the Court. Creditors include not only creditors to whom the company is indebted in sums presently due, but also creditors whose debts are not yet due and persons who have or may have any claim against the company in consequence of the company's going into liquidation; that is to say, every liability, however difficult of valuation, is provable in the winding-up unless declared by the Court to be incapable of being fairly estimated.

(3) To realise the assets subject in certain respects to the control of a committee of inspection before the Court and to apply the proceeds in
   (*a*) Paying the cost of liquidation;
   (*b*) Discharging the debts and liabilities of the company; and
   (*c*) Dividing the surplus, if any, amongst the contributories and in adjusting their rights among themselves.

327.—**Preferential Payments.** *Prima facie* all debts due to unsecured creditors must be paid *pari passu* and equally, but the following claims have priority both over the ordinary creditors and over the holders of debentures creating a floating charge on the company's assets, viz.:—

(1) Rates and taxes for not more than one year;
(2) The salary of any clerk or servant for the preceding four months, not exceeding £50; and
(3) The wages of any labourer or workman for the preceding two months, not exceeding £25;
(4) Payments due under the Workmen's Compensation Act, 1923, but this does not apply if the company is being wound up voluntarily for the purpose of reconstruction or amalgamation.

328.—**The List of Contributories** is drawn up in two parts, viz. :—

(1) The A list, containing the names of those persons who were members of the company at the commencement of the winding-up and who are primarily liable; and

(2) The B list, containing the names of those persons who have ceased to be members of the company within one year before the winding-up. Any person on the B list is liable to the extent of the amount, if any, remaining unpaid on the shares previously held by him, provided

(a) That at the time of the winding-up there were debts in existence which were incurred while he was a member; and

(b) The members on the A list are unable to satisfy the contributions required from them.

329.—**Calls.** For the purposes mentioned the liquidator, with the sanction of the committee of inspection if there is one, and if there is not, of the Court, may make calls on the contributories in respect of the amounts, if any, remaining unpaid upon their shares.

A call made in a winding-up is in the nature of a statutory debt; it is made by the Court and is usually called by a *Balance Order* made in chambers summoned by the liquidator. But a contributory in a company who is also a creditor of a company cannot, in a winding-up, set off his debt against a call made upon him by the liquidator.

330.—**Liquidator's Rights with Sanction of Court.** There are certain acts and things which the liquidator may do on his own motion and without consulting anybody else. For example, he may sell any property of the company and do all things which may be considered necessary for winding-up the affairs of the company and distributing the assets. On the other hand, there are certain things which the liquidator can only do either with the sanction of the Court or of the committee of inspection, if there is one. For example, he requires such sanction to make calls, to bring or defend actions, to make compromises with creditors, and to employ a solicitor or accountant to do such business as the liquidator is unable to do himself.

331.—**Dissolution of Company.** When the affairs of a company have been completely wound up, the Court has power to make an order that the company be dissolved as from the date of such order, and the company is dissolved accordingly. Notice of the order is communicated by the liquidator to the registrar of companies, who thereupon makes an entry of the dissolution of the company, which thenceforward ceases to exist.

Chapter XXXIV

RECONSTRUCTION OF A COMPANY

332.—**Arrangements with Creditors.** By the Joint Stock Companies Arrangement Act, 1870, where any compromise or arrangement is proposed between a company which is in the course of being wound up and the creditors of the company or any class of its creditors, e.g. debenture holders, the Court may order a meeting of such creditors to be held, and if a majority in numbers representing three-fourths in value of the creditors present at the meeting either in person or by proxy agree to any arrangement or compromise, if such a compromise is sanctioned by the Court as being a fair and reasonable one, the compromise is binding on all such creditors or class of creditors and also on the liquidator and contributories of the company, even though its effect may be to deprive secured creditors, e.g. debenture holders, of their security either in whole or in part.

By the Companies (Consolidation) Act, 1908, the provisions of the Companies Arrangement Act, 1870, are made to apply not only as between a company and its creditors, but also as between a company and its members or any class thereof, e.g. preference shareholders.

333.—**Reconstruction.** When it becomes necessary to reconstruct a company it is usually effected by means of a sale and transfer of a company's assets to a new company under the provisions of the Companies (Consolidation) Act, 1908, Section 192, by virtue of which, when a company is being wound up voluntarily, the liquidator may, with the sanction of a special resolution passed by the company, enter into a contract for the transfer or sale of the business and property of the company which is in course of being wound up to another company, in consideration of shares in the new company to be distributed amongst the shareholders of the old company *pro rata*. In practice the shares are generally credited with part of their nominal amount as being paid up, and the holders are only liable in respect of the balance.

334.—**Dissentient Members.** A sale or transfer made in pursuance of the Act is binding on all the members of the company which is being wound up, but any dissentient member may by a

written notice within seven days after the passing of the resolution require the liquidator either—

(1) To abstain from carrying the resolution into effect; or

(2) To purchase his interest, the price to be paid being fixed by agreement or arbitration.

Any proviso in the articles purporting to deprive the member of this right in this connection is void.

[illegible] When two or more companies desire to [illegible], the operation is usually carried out unc[illegible] Companies Act, 1908, Section 192. In some cases the amalgamation is effected by the registration of a new company which takes over the several undertakings of the old companies, and in other cases one of the existing companies takes over the undertakings of the other companies, provided it has the power to do so under its constitution.

Appendix I

LEGAL TERMS AND PHRASES

Ab Initio.—"From the beginning."

Ad Valorem.—"In proportion to value."

Affidavit.—A document sworn by a party to or a person interested in an action or other proceeding at law.

Agenda.—The programme of business intended to be transacted at a meeting.

Allotment.—The allocation of shares in a limited company to those who have applied for them on the invitation contained in the prospectus.

Arbitration.—The reference of a dispute to some competent person for his decision.

Articles of Association.—The by-laws governing the internal conduct of a company's affairs. They constitute a contract by deed between the company and every member as well as between each individual shareholder and every other.

Audit.—The examination of the accounts of any undertaking to see if they truly represent its position. The auditor should be careful not to certify what is not justified by the circumstances. He may be held liable in damages if he does not exercise the care which may be reasonably expected of him.

Bailment.—The delivery of goods to another for some purpose upon a contract, express or implied, that after the purpose has been fulfilled they shall be redelivered to the bailor. For instance, warehousemen, wharfingers, pawnbrokers, and carriers are bailees of goods.

Bill of Sale.—An assignment of the ownership, but not of the possession of personal goods and chattels, giving the assignee power to seize and to sell the goods named therein. It is usually made by way of security for a debt or loan.

Bona Fide.—"In good faith."

Bond.—A written document signed and sealed by a person called the obligor, by which he acknowledges that he owes a certain sum of money to another who is called the obligee.

Calls.—The instalments by which the capital of a limited company is paid up. The shares are usually issued on the understanding that a certain

Distraint.—A summary method of recovering rent, rates, taxes, etc., in arrear. Upon a distraint for rent even the goods of a stranger can be seized.

Dividend Warrant.—A kind of cheque or written order on a banker requesting him to pay a specified amount by way of dividend to a person named. A dividend warrant is a negotiable instrument and must be stamped as a cheque.

Domicil.—From the Latin *domus*, a home. A person's permanent place of residence. The domicil of a company is fixed by the Memorandum of Association and cannot be changed without the consent of Parliament; but the situation of the office may be changed from one part of England to another by giving notice to the registrar.

Donatio Mortis Causa.—A gift made in anticipation of an impending death.

Double Entry.—The system of accounting invented by the Italians, in which every transaction is entered in two different accounts, one relating to the giver or creditor, the other to the receiver or debtor.

Equitable Mortgage.—The raising of a loan by the deposit of title deeds with a memorandum in writing charging the property.

Equity of Redemption.—A phrase used which denotes the rights remaining in a mortgagor when he has mortgaged his property.

Ex Parte.—A proceeding taken by one party when the other party to the suit is not present and has not received notice of the proceeding.

Femme Sole.—An unmarried woman.

Fieri Facias.—A writ which enables a judgment creditor to seize the goods and chattels of his judgment debtor in satisfaction of the judgment. The abbreviation for the term is Fi. Fa.

Floating Capital.—That portion of a company's capital which is not locked up in a permanent investment, but which is actually available for carrying on the business.

Foreclosure.—By action of foreclosure a mortgagee may, on failure of the mortgagor to redeem by a date fixed by the Court, destroy the mortgagor's equity of redemption and so become absolute owner. Such an action is maintainable whenever there is default in payment of either principal or interest.

Form of Application.—A form to be filled up by each applicant for shares in a limited company.

Forgery.—The making of a false document or signature with intent to defraud. It is a misdemeanour punishable with penal servitude.

Garnishee Order.—A notice sent by the Court to persons who have in their custody money or goods belonging to judgment creditors, and ordering them not to part with such money or goods.

Gazette.—The *London Gazette* is a Government newspaper, published every Tuesday and Friday. Such public matters as bankruptcies, winding-up of companies, dissolution of partnerships and the administration of the estates of deceased persons are published in the *Gazette.*

In Advance of Calls.—Payments made by shareholders on the amount due upon their shares before any call on the shares has been made. Such payments in advance must be sanctioned by the Articles of Association. Interest may be paid on such advances even though no profits have been made by the company.

Injunction.—A judgment or order of a Court to restrain a person from doing anything; breach of an injunction may lead to committal to prison.

In Re.—A brief expression used as the equivalent of "In the matter of."

Inter Alia.—"Among other things."

Intra Vires.—"Within one's powers."

Ipso Facto.—"By the very act itself," or, as it is generally used, "As a necessary consequence of the act." It is sometimes used in the Articles of Association of a joint stock company. "The office of a director shall *ipso facto* be vacated if he becomes bankrupt," that is to say, the bankruptcy of a director automatically deprives him of his office.

Judgment Debtor.—A person against whom a judgment in a court of law in an action for debt or for damages has been obtained

Letter of Regret.—A letter sent to a person who has applied for shares in a public company, stating that shares cannot be allotted to him.

Letter of Renunciation.—A document attached to a letter of allotment, which, on being signed by the person to whom the shares have been allotted, enables him, on sending it to the directors, to renounce his right to take up the shares in favour of another party. He is then in no way liable on the shares which had been allotted to him.

Lex Mercatoria.—Another expression for commercial law or the law dealing with commercial transactions. Customs of merchants enter largely into the law merchant. An important instance is the law as to negotiable instruments now codified but originally founded on well-recognised custom of trades. Its literal English equivalent is "the law merchant."

Lien.—The right to retain possession of a thing until a claim be satisfied.

Limited and Reduced.—A phrase applied to a limited company whose capital has been reduced by permission of the Court.

Liquidated Damages.—When the sum claimed by a plaintiff in an action can be definitely ascertained by calculation or in accordance with a fixed scale of charge, it is said to be "made clear" or liquidated. When, however, the amount depends on all the circumstances of the case and has to be estimated by the jury, the damages are said to be unliquidated

Mala Fide.—"In bad faith."

Merger.—A legal term signifying the swallowing up of a lesser interest by a larger one.

Minute Book.—The book in which is kept a brief record of the business transacted at the general meetings of the shareholders of a company and at the ordinary meetings and committee meetings of the directors.

Mutatis Mutandis.—"With the necessary changes."

Novation.—The substitution of a new debtor in place of an old.

Nudum Pactum.—An agreement or a promise made without any consideration being given for it. Such an agreement or promise is unenforceable in English law, unless it is made under seal.

One-Man Company.—The name given to a limited company (usually a private company) the shares of which are practically all held by one man. Six (or only one in a private company) other shareholders are allotted an insignificant number of shares to make up the necessary seven (two in a private company) shareholders required for a public company by the Companies (Consolidation) Act, 1908.

Pari Passu.—In equal proportions, or with equal rights.

Power of Attorney.—The document by which a person is specially empowered to act for another in the capacity or capacities stated therein.

Pro Rata.—At a certain rate according to scale.

Proxy.—The person who acts for another, also the document appointing him.

Quorum.—The legal number of members of a committee or board of directors who may hold a meeting and transact business as arranged by the rules of the company they represent.

Reserve Fund.—That portion of the profits of a company not divided amongst the shareholders but set aside to meet contingencies.

Reserve Liability.—That portion of a company's subscribed capital which can be called up only on the winding-up of the concern.

Reversion.—This is the right to property on the occurrence of a certain event such as death, expiry of a lease, etc.

Scrip.—The provisional certificate of a person's shares in a joint stock company or in a Government loan.

Secured Creditor.—One who holds a security sufficient to cover the amount of debt due to him.

Share Certificate.—A document, usually under seal, issued by a public company to a shareholder, stating that the person named therein is the registered owner of a certain number of shares. The numbers of the shares, and the amount paid up on them, are set forth.

Share Warrant.—A document under seal issued by a limited company, stating that the bearer is [illegible] Such a document can be issued [illegible]

Sine Die.—"Without a day," i.e. postponed indefinitely.

Talon.—The slip attached to a bearer bond. It is used in applying for further interest coupons when the previous issue is all used.

Tort.—This is a wrong independent of contract and arises whenever without lawful excuse a right is infringed whereby a particular person suffers damages.

Uberrimae Fidei.—A name given to contracts like that of insurance, in which both parties must exercise the utmost good faith.

Ultra Vires.—This expression, meaning literally, "beyond the powers," is generally employed in relation to the proceedings of directors of joint stock companies. For example, where the Articles of Association provide that certain specified things shall only be done by the shareholders in general meeting, the directors cannot legally do those things at a board meeting. If they attempt to do so, they are said to be acting *ultra vires*; they are exceeding their authority.

Underwriter.—In company law, the term applies to a person who, in return for a certain commission, undertakes that if the public do not take up shares in a company that is being floated, he himself will take up and pay for a certain number of the shares

Appendix II

BUSINESS TERMS AND ABBREVIATIONS

A1.—This is the mark which is employed in Lloyd's register of shipping to denote first-class vessels.

The letter itself indicates the character of the hull of the vessel as being built in the best manner.

The numeral 1 indicates the efficient state of the stores, cables, anchors, etc.

The mark A1 is very frequently applied to goods to denote that they are of the very best quality.

Abatement.—A deduction from the price of goods for damages sustained by them, or for payment of demands before due.

Acceptance of a bill of exchange signifies that the drawee agrees to the order of the drawer. After it has been accepted the bill is called an Acceptance.

Accommodation Bill.—A bill drawn upon, or accepted or endorsed by, somebody for the convenience of another without the former having had any consideration from the latter; slang expressions are "kite" or "windmill."

Accountant is a person who makes up and keeps accounts and prepares balance sheets.

Account Current.—An open or running account which shows how persons between whom business transactions are being carried on for a definite period stand to one another.

Account Sales.—An account furnished to a principal by his agent, giving details of the sale of a consignment of goods. It states the quantities sold, the price paid for each lot, the total proceeds, the deductions made for the agent's commission and for expenses incurred by him for freight and insurance, and, lastly, the net proceeds.

Active Partner.—One who takes a working part in the business which partly belongs to him. A partner who simply provides capital and takes no active part in the business is called a dormant or sleeping partner.

Act of Bankruptcy.—An act committed by a debtor which will render him liable to bankruptcy proceedings.

Ad Valorem.—A Customs *ad valorem* duty is a percentage charge made upon the value of certain goods, and not upon their weight or quantity ("according to the value").

Bank Charter.—This is the charter of incorporation of the Bank of England, It was first issued in 1694, but was renewed in modified forms at various intervals. It confers privileges on the Bank of England which are not enjoyed by other banks.

Bank Post Bill.—A promissory note issued by the Bank of England (which is the only bank in this country which issues such bills), undertaking at usually, seven days after sight, to pay the bill to a specified person or to order.

Bank Rate.—Percentage charged by the Bank of England for discounting first-class bills of exchange.

Bank Return.—A report issued weekly by the Bank of England showing its financial condition.

Bankrupt.—An insolvent debtor who has been adjudged bankrupt by the Court.

Barratry is the fraud or criminal conduct of the master or mariners of a vessel whereby either the owners or the insurers of a ship or cargo are exposed to loss.

Bear.—This is a speculator, on the Stock Exchange, who sells for future delivery stocks or shares he does not at present possess, hoping to buy them in the meantime at a lower rate.

Bill Book.—A book used for the purpose of recording the bills of exchange to be paid or received by a firm. There are generally two books used—a "bills payable" book and a "bills receivable" book—one for the bills owing by the firm, and another for the bills owing to the firm.

Bill of Exchange.—A bill of exchange is a written order addressed by one person to another requesting him to pay to a third party a sum certain in money at a specified time. The third party may be the same person as the drawer, or the bearer of the bill, or any person to whom that third party directs the bill to be paid.

Bill of Lading.—A document which is given by the master or the ship's agent stating that the goods sent by a consignor have been received on board ship, and the terms on which the goods will be carried. It also serves as a document of title to the goods.

Bill of Sight.—A provisional form of Customs declaration made by an importer, given when he is ignorant of the exact nature or quantity of goods to be landed. He is thus enabled to make, subsequently, a correct bill of entry.

Bimetallism.—The system of currency based upon a standard of gold and silver, as distinguished from that based upon a single standard, which is known as monometallism.

Black List.—A list of persons against whom it is necessary to warn the public, because their credit is so bad that it is unwise to enter into contracts with them. Such lists are published by the various trade protection agencies to their subscribers for their private information, in order to protect them from the risk of bad debts.

Blank Transfer.—A blank transfer of stock or shares is a transfer where the name of the transferee has not been filled in. It is sometimes used when shares are given as security for a debt, the intention being that, if default is made in payment, the lender may fill in his own name as transferee, or insert the date, and send the instrument forward for registration.

Bonus.—A special allowance, premium, or gift to the shareholders or employees of a concern.

Bottomry Bond is the mortgage of a ship by the captain or owners in order to obtain money needed for special purposes, such as effecting repairs.

Bourse is the name given to the continental Stock Exchanges or money markets

Broker.—A broker who is a mercantile agent within the meaning of the Factor's Act, 1889, is an agent who is employed to buy or sell goods or merchandise for other people.

Brokerage.—The payment made to a broker for carrying out the sale or the purchase of property.

Bull.—A speculator who buys stocks or shares hoping to sell in the meanwhile at a high rate before the time of settlement arrives.

Bullion.—Uncoined gold and silver.

Carrying-over is a Stock Exchange term for the operation by which the settlement of a bargain transacted for money or for a given account may for a consideration be postponed from one settlement day to another. The consideration paid is known either as a Contango or a Backwardation.

Case of Need.—An indorsement sometimes put upon a bill of exchange, naming a person who will accept or make payment for the honour of the drawer, or one of the indorsers, should the bill not be accepted or paid at maturity.

Certificate of Origin.—A document showing the place of origin of goods—where they have grown or have been manufactured.

Certified Transfers.—Transfers are often certified in the margin by the secretary or registrar of a company The certification states that the certificates for the shares dealt with in the transfer are in the company's office.

Cheap Money.—Money is said to be "cheap" when it can be borrowed at a low rate of interest. Money is called "dear" when, owing to scarcity, it can be borrowed only at a high rate.

Cheque is a written order to one's banker to pay a specified sum of money to a person named or to his order, or to the bearer, as the case may be. It is always payable on demand.

Clearing House.—An institution by means of which bankers are enabled to transfer credits from one bank to another in the same manner as credits are transferred within the same bank.

Code.—A collection of words with a certain meaning, used in foreign and other telegrams to save expense in transmission.

Collateral Security.—A secondary security for the payment of money or the performance of a contract. The term is generally applied to the deposit of deeds or documents giving the right to property in case the first or chief security fails or becomes insufficient.

Commerce is the sum total of those activities which have for their object the exchange of goods between the producer and the consumer.

Commission.—The mode of remuneration for services rendered by agents in commercial transactions, generally taking the form of a percentage on the amount of business done.

Consignment.—The sending or delivering of goods by one person to another, generally in another town or country, for a specific purpose.

Consul.—This is an officer appointed to reside in a foreign country to facilitate an extension of the commerce which is carried on between the country which sends him and that to which he is sent.

Contango.—The sum paid by a buyer who does not wish to pay for his stock on settlement day. It is a fee paid for carrying stock over for settlement to the next account. The Stock Exchange settlement occurs at the middle and end of each month. The amount of contango generally ranges between one shilling and seven shillings and sixpence per £100 stock.

Council Drafts.—Drafts issued by our Government upon the Indian Government and payable at the Bank of India. They are issued to prevent the frequent transmission of bullion from the one country to the other.

Cover.—In its wider sense this word means a security against loss, but it is employed more particularly in connection with Stock Exchange transactions to signify a deposit made with a broker to secure him from being out of pocket in the event of stocks falling against his client, the client paying the difference.

Cum Dividend.—With a dividend due or accruing. When stocks or shares are sold *cum div.* the buyer takes the benefit of the dividend about to be distributed; but when they are quoted *ex div.* the seller wishes to dispose of the securities but retain the dividend already declared upon them.

Days of Grace.—The time of indulgence allowed to an acceptor for payment of a bill of exchange or promissory note.

Debenture.—A written promise, usually under seal, given by a company to repay with interest at a specified time money lent to the company.

Dead Freight.—This is the compensation payable to the shipowner when the charterer has failed to ship a full cargo.

Dead Letter Office.—This is a department of the General Post Office in which undelivered letters are opened and returned to the writers, or otherwise disposed of.

Deficiency Bills.—When the revenue balance in the Bank of England to the credit of the Government is insufficient for payment of the quarterly dividends, the deficiency is borrowed from the bank upon "deficiency bills."

Demurrage.—A charge of so much per day made by the owners of ships and barges for their detention beyond a stipulated time. The term is also used for a charge of so much per day made by railway companies for detaining their horse-boxes, wagons, trucks, and carriages beyond a certain time.

Dock Dues.—Tolls charged on vessels and their cargoes when entering or leaving docks. These dues are charged to cover the interest on the capital and the cost of keeping the docks in order.

Dock Warrants.—These are certificates of goods in a warehouse of the docks, the possession of which entitles the holders to the delivery of the goods.

Dunnage.—Any article used in stowing a ship's cargo to protect it from damage during the voyage.

Embargo.—A Government order to prevent ships from loading or unloading certain goods, or from entering or leaving a port, sometimes enforced in times of war. In a legal sense, an authoritative order to prevent the removal of property, pending some judicial proceedings against the owner.

Entrepot.—An intermediate foreign port or warehouse for the temporary reception of goods which are in transit to another place.

Exchequer Bills are orders upon the Exchequer entitling the bearer to the sums specified thereon, together with the interest at a fixed rate per cent per day until a period is named for their payment That period is at the option of the Government, but it seldom exceeds twelve months from the date of issue.

Exchequer Bonds.—Bonds issued by the Treasury for the repayment of money borrowed by the Government. They are issued by the authority of an Act of Parliament, which also states when they are to be redeemed. Exchequer bonds are payable to bearer, and are not received in payment of taxes.

Excise.—This is an inland tax on certain commodities produced and consumed within the country.

Extractive Industries.—Employments whereby the raw materials are obtained from the earth, either for consumption or for being worked up into manufactured goods.

Ex-Warehouse.—When goods are sold thus, the purchaser must provide means of conveyance from the warehouse door.

Factor is an agent employed by a merchant to transact business on his account. He differs from a broker in that he may sell in his own name.

Fiduciary Issue.—A term applied to the note issue of the Bank of England, which is authorised against the Government debt and securities, as distinguished from the note issue against gold.

Firm means solidity or strength, and signifies two or more persons united in partnership for the purpose of trading.

Force Majeure.—This term has a wider significance than "Act of God" since it includes, besides the effects of an act of God, the results of the act of man. In principle it may be defined as being some condition arising to prevent delivery, which no ordinary causes could foresee or provide for, making it impossible to supply the goods within the contract time. The most common occurrence is labour trouble; for example, workmen may apply to the seller for an increase of wages which he does not see his way to grant, and a stoppage of production may ensue.

Forwarding Agent.—A person who is employed to collect and deliver goods on behalf of others.

Free on Board.—This signifies that the vendor of the goods puts them on board ship free of all charges to the purchaser.

Freight.—The money paid for the carriage of goods by sea, or the price paid by a merchant for the use of a ship to transport goods. The amount is generally fixed by the charter party or the bill of lading.

Gauger.—The officer of Customs or Inland Revenue, whose business it is to ascertain the contents of casks.

Gilt-Edged Securities.—Securities of the highest order and which are considered to be absolutely safe.

Godown.—A warehouse where imported goods are stored until they are required for use.

Indent is the name given to an order for goods from an agent or correspondent abroad, with full particulars and conditions as to price, etc.

Interest is the premium paid for the use of money.

Interim Dividends.—Dividends declared before the whole amount of the profits of an undertaking for any period has been ascertained.

Intermediary is a person who brings buyers and sellers, producers and consumers, together, by acting as an agent through whose hands the goods can pass. In so far as these classes can come into contact without his aid, the "intermediary" is *unnecessary*, and should be done away with, since his commission must raise the price.

Jerquer.—A Customs official whose duty it is to examine the ship's cargo to prevent goods from being imported without paying duty.

Jobber.—The members of the Stock Exchange are divided into two classes, brokers and jobbers, or dealers. These latter deal in securities which they buy from or sell to the public through the medium of the brokers.

Joint Stock Company.—One in which the capital required has been contributed jointly by the members. This is usually divided into shares, and each shareholder pays the price of his holding by instalments as required until, if necessary, his shares are fully paid up. In a limited company each shareholder's liability for the debts of the company is limited to the amount he still owes, if any, on his shares

Lame Duck is the term applied to a member of the Stock Exchange who is unable to meet the claims made upon him at the date of settlement. He thereupon ceases to be a member.

Lay Days.—A shipping term for the number of days allowed for loading and unloading ships, as agreed upon by the owners and charterers, or the owners and freighters, as the case may be.

Ledger.—This is the principal book in book-keeping. It contains the whole of the entries recorded in all the other books summarised and classified for the purpose of ready reference.

Legal Tender.—Such money as a creditor is obliged to receive in requital of a debt, expressed in terms of money of the realm.

Letter of Credit.—A document issued by a banker, authorising the banker to whom it is addressed to honour the cheques of the person named to the extent of a certain amount, and to charge the sum to the account of the grantor; or it may be worded so as to authorise the person to whom it is addressed to draw on demand, or at a currency upon the banker issuing the letter, and the grantor undertakes, in the letter, to honour all drafts drawn in accordance with the terms of the credit.

Lighterage is the cost of the conveyance of goods in a lighter or barge.

Lloyds.—The institution so called from having its headquarters in Lloyd's rooms The members of the institution are devoted to the business of marine and other forms of insurance.

Long Exchange is the price of a bill payable at a certain length of time, generally three months or more after date of purchase. The long rate in foreign exchanges will equal the sight rate plus three months' interest at the foreign rate, cost of foreign stamp, and certain allowances for contingencies.

Manifest.—A statement or declaration made concerning a cargo of a vessel for the satisfaction of the Custom House officers.

Marked Cheques.—Cheques which have been marked by the banks upon which they are drawn, certifying that they are in order and certain of being paid when presented.

Mate's Receipt.—A receipt given by the mate of a ship for goods which have been received on board.

Merchant is one who buys and sells goods for profit. The term is now usually confined to a wholesale dealer or one who trades on an extensive scale with foreign countries.

Mint.—The Government institution engaged in the coinage of money. It is situated on Tower Hill.

Notary Public.—A solicitor specially authorised to present, protest, and note dishonoured bills of exchange.

Option.—This is the right to buy or sell a commodity at a price which has been previously fixed. A "Call Option" is the right to purchase at a specified price, whereas a similar arrangement to sell is a "Put Option."

Over-trading.—The locking of so great a portion of the capital embarked in an undertaking that too little is left for effective use as a medium of exchange.

Partners.—Persons who place money in any private company or business for the purpose of carrying on jointly any trade or business.

Pass-Books.—This is a book given by a banker to his customer showing the amounts paid into and the amounts paid out by the bank—in short, it is a copy of the customer's account in the bank's ledger.

Policy.—The document which sets out the terms of the contract of insurance entered into between the insurers and the insured.

Price Current is a list issued by a merchant or manufacturer to customers showing the current market prices of goods.

Qualified Acceptance.—A signification by the drawee of his qualified assent to the order of the drawer of a bill of exchange.

Rebate.—A discount or allowance. The term is mostly used by bankers and others for an allowance made by them to parties taking up bills of exchange before they are due.

Respondentia.—A loan raised upon the cargo of a ship on the personal responsibility of the master.

Retailers are those who sell goods in small quantities to the general public, and are generally known as tradesmen or shopkeepers.

Ring.—A combination of capitalists formed for the purpose of raising the price of a certain commodity above its ordinary market value, by withholding it from circulation.

Royalty is the payment made by a publisher to an author on every copy of his book sold; payment made to a patentee on each article manufactured under his patent by a licensee; payment made to the owner of minerals for the right of working, paid on the ton or other weight raised.

Shipbroker.—The person who transacts business between owners of vessels and the merchants who send cargoes.

Sinking Fund.—An amount annually set aside out of revenue, and invested to provide at a future date for the redemption of a loan or for balancing the gradual shrinkage in value through the exhaustion of profit-bearing resources of a mine or machine, or other part of a capitalist's assets.

Solvent.—In a position to pay one's debts in full

Specie.—Coins of every kind

Stag.—A person who applies for an allotment of shares in a new issue simply with the intention of selling out at a profit, and not of taking up the shares.

Stock Exchange.—A private institution devoted exclusively to dealings in stocks and shares.

Syndicate.—A body of persons who combine to carry through some financial transaction or to undertake a common adventure. They are usually incorporated under the Companies Acts.

Tare is an allowance made from the gross weight of goods for the box, bag, or other wrapping in which goods are packed.

Tonnage.—The cubical capacity of a ship, one ton being estimated at 100 cubic feet.

Trade is the term used to imply all those operations involved in the purchase and sale of goods on credit. It is a section of commerce

Trade Discount is a special allowance made by sellers to people in the trade who buy goods for the purpose of re-sale. For book-keeping purposes the amount must be deducted from the invoice and the price shown at its net figure in the books of account. In some concerns the trade discount may be as low as 10 per cent. and in others as high as 70 per cent.

Treasury Bills.—These are bills issued by the Treasury in return for sums of money lent to the Government by private individuals.

Ullage.—The difference between the full capacity and the actual contents of a cask. The term is sometimes applied to the quantity of liquor in a cask.

Underwriter.—A person engaged as agent in transacting marine insurance.

Watering Stock.—Increasing the capital of a company by creating new stock, without making any additional provisions for paying dividends on the new stock issued.

Wharfage is a charge made for landing goods on, or shipping them off, a wharf.

Wholesale Trader.—A person engaged in transacting business with professional buyers and sellers.

INDEX

Edinburgh: Printed by T. and A. Constable Ltd.